

The world's youngest Buddhist lama, a two-year-old Spaniard, was enthroned in Bharmasala, India and venerated as the reincarnation of a dead Tibetan lama.

MEASURES

- Budget measures will cost just over £2.5m (\$4m) on an indexed basis. Income tax changes, to take effect after May 17, will cost £22m in 1987-88 after indexation.
- Corporation tax main rate will remain at 35 per cent. Small companies rate and advance corporation tax will fall from 29 to 27 per cent.
- Oil companies will get relief from petroleum revenue tax from new oil exploration in Britain.
- One half of an employer's profit-related pay will be tax free.
- Income tax basic rate will be cut 2 points to 27 per cent, worth more than £3 a week to a person on average earnings.

FORECASTS

- Output to rise by 3 per cent in 1987, with exports and investment up by more than this figure.
- Non-oil economy set to grow by 3½ per cent in 1987.
- Inflation to edge up, perhaps over 4½ per cent, before falling to 4 per cent by year-end.
- Current account likely to remain in deficit by about £2.5m (\$4m) in spite of strong predicted growth in exports.
- Public supply target range set at 2 to 6 per cent for next year, M30.
- Public borrowing in 1986-87 at only £4m, or 1 per cent of GDP, the second successive year of significant undershoot. PSBR target for 1987-88 at £5m.

Labour leader Neil Kinnock:
demanding a different share-out
of wealth. Page 19

WHEN T

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IT'S BEEN WORKING FOR CENTURIES.



FINLAND'S conservative Kokoomus Party looks certain to join in a coalition government for the first time in 22 years after gaining nine seats in Monday's general election. Kokoomus, which won 53 seats against the Social Democrats 56, seems likely to push for lower taxes in an attempt to boost the economy, and make government more sensitive to business interests.

It is unlikely there will be any change in foreign policy which has sought to balance the realities of Finland's common border with the Soviet Union with its Western orientation.

Kokoomus will now be flanked by the Centre Party, the second major non-socialist party, which gained two seats, bringing its total to 40. The two seem likely to form Finland's first purely non-socialist government for decades following a total swing of eight seats from left to right. The Socialists held 76 seats, while the neo-conservative won 124.

The Rural Party, which traditionally gets its support from poor, agrarian "protest voters" suffered a dramatic loss of nine seats and was relegated to eight MPs after having served four years in government. Other disappointed protest parties

Kokoonus and its chairman, Mr. Ilkka Suominen, are literally the lucky winners. The party gained only 1 percentage point in votes but still took nine more seats whereas the Social Democrat Party's support dropped by 2.2 per cent, but it lost only one seat under the proportional representation system.

The SDP and the Rural Party explained their losses by "governing fatigue". The more objective explanation is that the country clearly wanted a change.

Key politicians who did not make it to Parliament include the Communist Party (majority) chairman Mr Arvo Aalto who dropped out, and the Stalinist leader Ms Kristi-

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EUROPEAN NEWS

Andreotti in challenge to Socialists

BY JOHN WYLES IN ROME

MR GIULIO ANDREOTTI, the veteran Christian Democrat leader charged with forming an Italian Government, yesterday challenged the Socialist Party either to agree to major compromises or to take responsibility for an early general election.

In his attempt to renew the five-party coalition formerly headed by Socialist leader, Mr Bettino Craxi, Mr Andreotti yesterday sought Socialist support on the basis of a formula for avoiding the referendum on nuclear policy and judicial reform due in June.

Fearful of being outflanked by parties to their left, the Socialists have been the only governing party insisting that the referendum should go ahead. The tiny Social Democratic Party has been shifting towards this position over the past few days, but the Christian Democrats, the Republicans and the Liberals are all firm in the view that an Andreotti-led government would risk being torn apart by party conflict during the referendum campaign.

Mr Andreotti's 11-page letter sent to the party secretaries yesterday is a key move in the search for tactical advantage in the political game launched by Mr Craxi's resignation a fortnight ago.

If the Socialist executive rejects Mr Andreotti's proposed approach, then elections due in June 1988 would almost certainly have to be brought forward. Acceptance, however, would appear to be a sign of weakness from a party which has already appeared to climb down by agreeing to con-

plate Mr Andreotti as Prime Minister, having originally called for other Christian Democrat nominees.

The probability is that Mr Craxi will come back with counter-proposals aimed either at prolonging the government "crisis" until after his party's congress in two weeks' time or at providing a break-down in negotiations beforehand and transforming the congress into a pre-election rally.

Another option would be to take up a Social Democrat proposal that a minority Christian Democrat-Liberal-Republican government be sustained until the referendum is out of the way. This is an option, however, because they could well be on the losing side of the vote on both referendums.

An Italian referendum can only seek to repeal existing laws and it can be avoided only if Parliament does so beforehand. Mr Andreotti's letter, in effect, proposes handing victory to the sponsors of the referendum through an agreement to change the controversial laws in the context of broader judicial and energy policy reforms.

It does contemplate the possibility that the judicial reforms might not be achieved in time, in which case Mr Andreotti insists that the parties must all agree to campaign on the same position. But he is seeking to rule out any possibility of a referendum on the highly contentious nuclear issue. As compensation, he offers the Socialists a vague undertaking to discuss their demands for a directly-elected President.

Kohl gives keynote speech under Soviet scrutiny

BY DAVID MARSH IN BONN

THE Soviet Union is making clear that the tone of a parliamentary speech today by Chancellor Helmut Kohl will be crucial in determining whether Bonn's relations with Moscow have emerged from their freeze of the past few months.

Mr Kohl, who will be delivering to the Bundestag a keynote statement setting out his government's policies for the next four year legislative period, will also be under pressure to counter strong criticism of his leadership style among his own supporters.

He was re-elected Chancellor by the Bundestag last week by an unexpectedly low majority of four votes. This mainly reflected abstentions among disgruntled deputies from his Christian Democratic Union (CDU) party.

The Chancellor today is expected to stress the importance of improving relations with the Soviet Union as part of general East-West peace efforts. This follows the deep diplomatic rift last autumn after Mr Kohl compared Mr Mikhail Gorbachev

with Nazi propaganda chief Josef Goebbels.

Although Bonn officials are cautioning against expectations of any "spectacular" joint projects between the two countries, West German industrialists also hope that more contracts will accompany an overall improvement in the climate. Kraftwerk Union, the West German power station company, has offered Moscow equipment for modernising its nuclear power plants but is still waiting for a reply.

Possible nuclear collaboration is among the industrial topics expected to be discussed in talks between West German and Soviet experts in Bonn at the beginning of April.

Moscow is now holding out the prospect of improved relations in ties in exchange for conciliatory language from Bonn. Soviet diplomats say Mr Kohl's speech will be scrutinised for evidence that the Federal Republic is sincere in wanting a return to "normality."

Banker foresees greater exchange rate stability

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

LAST MONTH'S Paris accord of five industrial nations and Canada was to inject patience into the behaviour of the foreign exchange markets. That would allow the sharp depreciation in the dollar's value since 1985 to begin reversing the serious imbalances in the world economy—the huge US current account deficit and parallel surpluses in Japan and West Germany.

Dr Leonard Gleske, the Bundesbank council member responsible for international economic co-operation, said that from a medium-term perspective the exchange rates of the major currencies may now be around "equilibrium" levels. There was reason to believe that a further decline in the dollar would represent "overshooting" and would eventually be reversed.

Speaking in London, Dr Gleske said the aim of the Paris agreement between the Group

of Five industrial nations and Canada was to inject patience into the behaviour of the foreign exchange markets. That would allow the sharp depreciation in the dollar's value since 1985 to begin reversing the serious imbalances in the world economy—the huge US current account deficit and parallel surpluses in Japan and West Germany.

Dr Gleske, however, stressed that the role of the monetary and interest policies operated by central banks in maintaining stability was limited.

The transatlantic and transatlantic debates of recent months have revealed a tendency to treat action on interest rates as a ready substitute for all other action dealing with the more fundamental causes of major national payments imbalances," he said.

Soviet call for check on space launches

By William Dulforce in Geneva

THE Soviet Union yesterday called for an international inspection to prevent the use of space weapons in outer space. This proposal was aimed at moving debate on an arms race in space "off the dead center" in which it now languishes, Mr Yuri Natsarin, the chief Soviet representative, told the UN conference on disarmament.

Inspectors would monitor the launch of any space object and would have the right of access to all objects designed to be launched and stationed in outer space.

By submitting such a far-reaching proposal the Soviet Union was demonstrating that verification of any agreement to prevent an arms race in space was no problem for it, he added.

The US has emphasised that watertight procedures to prevent cheating must be incorporated in any nuclear disarmament agreement.

On its side the Soviet Union has insisted in the separate bilateral talks on the nuclear arms control with the US in Geneva that President Ronald Reagan's Strategic Defence Initiative (SDI) must be halted before a comprehensive second round of talks can be considered. SDI aims at deploying anti-missile weapons in space.

Moscow's move to activate discussion in the 40-nation disarmament conference which is mandated by the UN General Assembly to discuss space weapons, was seen by Western diplomats as an effort to step up the pressure against the SDI programme.

At the Natsarin reiterated earlier suggestions that the UN conference should try to elaborate an international agreement to ensure the immunity of artificial satellites.

Protesters in Poland detained

POLISH POLICE detained five members of an outlawed peace and ecology movement outside a Krakow courthouse yesterday for protesting against their scheduled trial, AP reports from Warsaw.

Police also detained about 10 other members of the Freedom and Peace Movement in Wroclaw during a demonstration of support for a student expelled for refusing to take the military oath.

The five Krakow demonstrators carried a banner and distributed leaflets protesting against members of the organisation, according to Mr Jacek Czaputowicz, a leader of Freedom and Peace.

They were scheduled to appear in the court yesterday in connection with charges stemming from a February 13 demonstration protesting against the alleged torture of political prisoners in Afghanistan.

In Wroclaw, about 20 people demonstrated outside the Wroclaw Medical Academy to protest against the expulsion of Mr Marek Krukowicz last year for refusing to take the military oath. Mr Czaputowicz said in a telephone interview.

Banker warns on globalisation

THE INCREASING globalisation of financial markets has far outstripped regulation of the markets, posing unprecedented risks, a leading Swiss banker warned yesterday, Reuters reports from Geneva.

"The fear factor is enormous" among bankers and other participants in financial markets, said Mr Hans-Joachim Hoffeld, director general of Credit Suisse in Zurich.

A committed Federalist who clearly admires the pragmatic policies of Mr Wilfried Martens, the Prime Minister, Mr Wathelet captured the nation's headlines late last year by embarking on what was dubbed his "Tour de Flanders" — essentially a one-day bridge-building exercise during which he addressed Flemish audiences on the need for better mutual understanding and wider economic and political co-operation between the two regions.

The impact of his visit can be gauged by the fact that several Flemish newspapers — never

WORLD'S MAJOR TRADING BLOCS SEEK WAY TO END 30-YEAR IMPASSE

EEC-Comecon to discuss formal relations

THE EUROPEAN Community (EEC) and the Soviet-led Comecon trading bloc will meet in Geneva today to discuss establishing formal relations, Reuters reports from Geneva.

The two-day meeting of officials follows exploratory talks in Geneva in September to review possibilities of an accord after 30 years of mutual non-recognition.

Experts from the two trading blocs aim to draft a joint statement on a general framework for relations which politicians will then consider.

Mr Christian Ducloux, an official

from the EEC diplomatic mission taking part in the talks, said yesterday: "The two sides will have the same heads of delegations as last time with four or five experts on each side."

Mr John Maslen, head of EEC relations with the communist economies of East Europe, will lead the delegation from the 12-nation Community.

Poland's Mr Zdzislaw Kurowski, deputy secretary of Comecon, or the Council for Mutual Economic Assistance, will head the delegation representing the 10-member bloc.

The September meeting ended

with a joint statement saying talks had taken place in a "good and businesslike atmosphere," but had not touched upon "specific areas of co-operation."

Similar negotiations were broken off in 1986 when East-West relations deteriorated following Soviet intervention in Afghanistan.

In January, the Community held its first-ever direct talks with Moscow on establishing diplomatic relations.

The preparatory talks held in Brussels, taken as a fresh sign of improved relations since Mr Mikhail Gorbachev took over Soviet

leadership two years ago, are expected to be followed by further meetings.

EEC governments have always insisted that institutional recognition between the Community and Comecon run parallel to any existing or future accords with Comecon-member states.

Last year the Community won agreement from Comecon that any accord between the two trading blocs would not affect its ties with individual Eastern bloc countries.

The Community is negotiating with Hungary, Czechoslovakia and

Romania over commercial accords. It had a deficit of about \$10m in its trade relations with East European communist states in 1986, due largely to huge imports of Soviet fuels and raw materials.

These imports were only partially offset by Community exports of equipment and manufactured goods to the Eastern bloc.

Comecon's Eastern European members are: the Soviet Union, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania. Remaining members are Mongolia, Vietnam and Cuba.

Mitterrand urges greater effort in space

FRENCH PRESIDENT Mr Francois Mitterrand said in an interview published yesterday that Europe should push forward with research and co-operation to avoid space being monopolised by Washington and Moscow, Reuters reports from Rome.

In an interview with the Italian Corriere della Sera newspaper, Mr Mitterrand spoke of his hopes for greater industrial, economic, technological and monetary co-operation between European nations.

He said Europe's role in space technology was crucial for its future, adding: "We must guarantee the autonomy of Europe in such a way as to avoid the United States and the Soviet Union monopolising space."

He said European nations could work towards this by pushing ahead with research and development on Ariane 5 — an advanced version of the European satellite launcher — with the planned European Space Agency Hermes space shuttle, and by taking part on an equal footing in the planned US orbital station Columbus.

Europe could also co-operate in developing observation satellites of its own and beginning research into a European orbital space station.

On monetary issues, the French president said his hopes of European nations using a common currency would take several years to achieve.

"It is, however, possible to make

the ECU (European Currency Unit) into a great international currency, which alongside other European currencies, could play a stabilising role between the yen and the dollar," he added.

"Either the European Monetary System (EMS) succeeds and Europe succeeds, or it will fail and Europe too will fail," he said.

Mr Mitterrand said the philosophy of "every man for himself" was a fatal error in terms of the future of Europe.

"If European countries do not unite, they will have neither the political dimension, nor the economic capacity to confront military, industrial, commercial, and technological competition," he said.



Mr Francois Mitterrand

Turkish trade gap widens

By David Richardson in Ankara

THE FALL in oil prices in the Middle East last year left Turkey with its largest trade deficit since 1981, the State Institute of Statistics disclosed yesterday.

The year-end deficit was \$3,600, 9 per cent up on 1985. Exports fell by 6.3 per cent to \$7,400, while imports also dropped, though only by 2.1 per cent to \$11,100.

Imports of crude oil fell by 45 per cent to \$1,800. Trade with Islamic countries, which has fuelled Turkey's export-led economic growth since 1980 fell sharply, though it came into surplus for the first time.

On the other hand, Turkey's exports to the OECD and the EEC have continued to grow by about 4 per cent.

Though the performance will disappoint those Turkish officials who thought that the fall in petroleum prices would leave Turkey with substantial net benefits, perhaps bringing the current account deficit below \$500m, the actual result can be taken to mean that Turkey's exporters are still making inroads into difficult international markets even at "wholesale" discounts in Middle Eastern markets have ended.

Mr Grisevicius said atheistic propaganda must improve. "We must strengthen our arguments against religious views everywhere, and we must decisively and skillfully denounce clerical exploitation," he said.

Lithuania's official media even a permanent campaign against Catholicism but have stepped up their efforts this year as the anniversary of the nation's conversion approaches.

The campaign centres on the argument of official Soviet historians that the Church, far from being the chief guardian of the nation's cultural heritage, has been hostile or indifferent to Lithuanian interests.

Pope John Paul, who closely follows events in Lithuania, has said he was refused permission to go to the republic in 1984 to attend ceremonies marking the 500th anniversary of the death of the nation's patron Saint Casimir.

A deacon of the church in neighbouring Latvia told a news conference in Moscow last November that a papal visit to Lithuania this year was under consideration and might be approved by the Soviet authorities.

Mr Murdoch is in Portugal to discuss possible investment in the local media, including a proposed private television channel, officials told Reuters in Lisbon yesterday.

Mr Murdoch, a leading contender for the television franchise has dinner on Monday night with Portuguese Prime Minister Mario Soares. Parliament is shortly due to debate the partial privatisation of television, currently a state monopoly.

Lithuania chief acts against nationalism

THE COMMUNIST Party leader of Soviet Lithuania has ordered more energetic measures to counter nationalism and religion in his republic, which marks the 600th anniversary of its conversion to Catholicism next June, Reuters reports from Moscow.

Speaking at a Lithuanian party Central Committee meeting, Petras Grisevicius said the proportion of non-Lithuanians in the republic's higher education system had fallen over the last 10 years.

"We must work more persistently to eradicate all forms of nationalist narrow-mindedness and conceit, nationalism and chauvinism," he said.

Ethnic Lithuanians form a majority in their own republic, representing about 80 per cent of the population of 2.5m.

Mr Grisevicius' speech was reported in the Lithuanian party newspaper Sovetskaya Litva.

His remarks echoed condemnations of nationalism and religious belief which several party leaders in the Soviet Union's 15 republics have made since nationalist riots erupted in the Central Asian republic of Kazakhstan last December.

Lithuania, one of three Baltic republics incorporated into the Soviet Union in 1940, has strong Roman

Catholic traditions and close historical and cultural links with Poland, with which it once formed a joint empire.

Mr Grisevicius said atheistic propaganda must improve. "We must strengthen our arguments against religious views everywhere, and we must decisively and skillfully denounce clerical exploitation," he said.

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The campaign centres on the argument of official Soviet historians

Fermenta founder's assets impounded

A STOCKHOLM court impounded property worth SKr 800,000 (\$125,000) from Ferat al-Sayed, founder of the Fermenta biotechnology company, who is being sued by creditors.

The impounded property, including the contents of a bank account, unspecified shares and three cars,

represents a tiny fraction of the SKr 570m he owes Swedish bankers Gotebanken.

The Egyptian-born entrepreneur's total debts following the crash of Fermenta stock during 1986 to a tenth of its former value is estimated to be up to SKr 1bn.

Under Swedish law, El-Sayed, who lost control of his principal stake in Fermenta to creditors last January, now faces bankruptcy if Gotebanken pursues a claim for its share of the debts through the court.

Fermenta stock plunged after auditors discovered irregularities in the 1986 accounts and slashed the company's profit forecasts from SKr 600m to SKr 400m.

Fermenta was expelled from Stockholm's stock exchange last January because of what the house board described as "unparalleled misconduct" during the El-Sayed era.

Reuters

Netherlands votes today in local council elections

BY LAURA RAUN IN AMSTERDAM

VOTERS ACROSS the Netherlands go to the polls today to elect provincial councils which will choose a new First (Upper) Chamber of Parliament in June.

Some 744 council members in all 12 provinces are to be chosen in an election dominated by national issues, as usual, despite national politicians' efforts to stay out of the limelight. The

economy and unemployment have figured most prominently with local politicians trying to paint these themes in provincial colours.

Secondary issues, such as environmental policy and care for growing numbers of old people, where the councils play a bigger role, also have drawn attention in a generally low-key campaign.

Provincial and First Chamber elections are held every four years and are based on proportional representation. Of the 749 provincial council seats, 65 per cent are held by the Christian Democrats and Liberals together, the governing coalition parties, and 30.5 per cent jointly by the Socialists and Democrats '86, the main opposition parties. The rest are

divided among a bevy of small left and right-wing parties. The Labour party, Opinion pollsters have predicted that as many as 77 per cent of eligible voters may cast ballots, which would be significantly higher than the 68 per cent in the last provincial election in 1982. Due to the general election last year, provincial elections were postponed to 1987.

casts of a high voter turnout, which generally helps the Labour party. Opinion pollsters have predicted that as many as 77 per cent of eligible voters may cast ballots, which would be significantly higher than the 68 per cent in the last provincial election in 1982. Due to the general election last year, provincial elections were postponed to 1987.

Weinberger hopeful about bases

MR CASPAR WEINBERGER, the US Defence Secretary, ended a delicate visit to Spain yesterday saying he was hopeful that there would be an agreement to keep a reduced number of American forces here, Reuters reports from Madrid.

Mr Weinberger told a news conference before flying to Turkey that he and Mr Narcis Serra, Spanish Defence Minister, had explored Spanish demands for a sharp reduction in the US military presence at four joint air and naval bases.

"There are indeed differences within those positions, but I think that with the degree of similarity and the degree of joint utilisation as to how important it is to preserve Western strength and security,

I'm very hopeful that ultimately the negotiators will be able to reach a satisfactory agreement," he said.

Mr Innocencio Arias, chief spokesman at the Spanish Foreign Ministry, said that Mr Weinberger's 36-hour visit had not produced any change in the positions of the two sides, which resume formal negotiations in Washington on April 23.

"Spain, too, is a very hopeful country that there will be a satisfactory agreement for both sides with real reductions in men, equipment and installations. That was our position before and it remains the same," he said.

Spain's Socialist Government has threatened not to renew a 34-year-old defence pact between the two countries when it expires next year unless

Washington agrees to make significant cuts in the number of troops it is allowed to station here, currently 12,500.

That reduction was a condition of a referendum a year ago in which Spaniards voted to remain in the North Atlantic Treaty Organisation (Nato).

Mr Weinberger said the US proposals addressed the requirement for cuts but reiterated that tasks carried out by any departing units must be taken over by Spain.

The strength of public feeling on the bases—regarded as the legacy of a quest by the late dictator Francisco Franco for international acceptability—was shown by a protest march to the Torrejon airfield outside Madrid on Sunday only hours before the US Defence Secretary arrived.

Lufthansa seeks regular services to E Germany

BY LESLIE COLLYN IN BERLIN

LUFTHANSA, the West German airline, is negotiating with East Germany to begin regular air services between the two German states. Allied officials in West Berlin said yesterday they were informed about the talks as air links could only be approved if they did not affect the three Allied air corridors across East Germany to West Berlin.

A member of Lufthansa's board, Mr Frank Beckmann, said last weekend that the airline was interested in scheduled flights between Frankfurt and Leipzig and perhaps other cities together with Interflug, the East German airline.

In 1984 the two airlines inaugurated a limited service during the spring and autumn Leipzig Trade Fairs between Leipzig and Frankfurt and four other West German cities. However, they involved a costly detour through Czechoslovak air space in order not to impinge on the Berlin air corridors.

Mr Beckmann ruled out Lufthansa flights to West Berlin, which it has long desired, "for the time being." Only aircraft registered in the US, UK or France can fly to West Berlin. West Berlin's governing mayor, however, proposed that Lufthansa could fly to West Berlin on a north-south route which would not touch the Allied air corridors.

Several Allied air carriers, however, have either begun regular services between West Berlin and Copenhagen or have applied to do so and would resist such competition.

Charismatic Walloon tries to bridge Belgian linguistic divide

BY TIM DICKSON IN BRUSSELS

"WE MAY be condemned to live with regional differences. But I really think we are now entering a more adult phase in Belgium's history."

That optimism—expressed by Mr Melchior Wathelet, the leader of Wallonia's regional government—is not always shared in a country which at times over the past six months has been made to look ludicrous by its apparently petty, albeit deep-rooted language dispute.

But the youthful and charismatic Mr Wathelet—tipped by some as a future Belgian Prime Minister—can at least claim to be trying harder than many of his compatriots to fulfil his own prophecy.

This week, for example, the 36-year-old president of the Walloon regional executive,

headed assembly about 100 businessmen and academics from all over the country for a one day biotechnology conference at Liege. Sponsored jointly with his Flemish counterpart, Mr Gaston Geens, the purpose of the gathering was to pool ideas on this fast-growing industry (well represented in each of the major communities) and look for possible areas of future co-operation.

Outside Belgium, such an occasion would barely merit a mention, but given the strong cultural and linguistic tensions between North and South—stretching back to the birth of the Belgian state in the early 1830s—the event assumes much wider significance.

"This is the first common initiative between Flanders and Wallonia since the 1860 constitutional reforms which set the basis for our present system of regional government," Mr Wathelet claimed beforehand.

A committed Federalist who clearly admires the pragmatic policies of Mr Wilfried Martens, the Prime Minister, Mr Wathelet captured the nation's headlines late last year by embarking on what was dubbed his "Tour de Flanders" — essentially a one-day bridge-building exercise during which he addressed Flemish audiences on the need for better mutual understanding and wider economic and political co-operation between the two regions.

The impact of his visit can be gauged by the fact that several Flemish newspapers — never

slow to cock a snook at what many of their readers consider the complacency and backwardness of their southern neighbours—were surprised and impressed that the Francophone Mr Wathelet was both able and willing to make his impassioned speeches in their native tongue.

"It was concerned that because Belgians are reading fewer national newspapers and watching purely regional television channels the image of Wallonia in Flanders has been very bad," Mr Wathelet explains.

"My goal in going to Flanders was to point out that the Walloon people are not as they are too often described in the North—lazy, old-fashioned and suffering from a depressed economy."

In a nutshell, Mr Wathelet's

message was that that notwithstanding the region's declining coal, steel and heavy engineering industries (epitomised perhaps by the troubled steel company Cockerill-Sambre), Wallonia has its fair share of exciting high technology businesses; that his region is the most important trading partner for the Flemish people; and that it is not only possible but highly desirable to forge closer links to avoid duplication of effort and achieve greater efficiency.

Mr Wathelet insists that his brand of federalism is in no way incompatible with a strong regional identity — "I am a strong defender of Wallonia's interests," he adds, pointing to the risks of Flemish intransigence or crime of treachery closer to home.

But he is also adamant that Belgium has more pressing problems than its linguistic differences—economic reconstruction, youth training, excessive public spending, for example—and that aspects of the regional rivalry can be damaging to both sides.

One example is the search for internationally mobile investments—an activity pursued independently and with equal vigour in North and South.

"Not so long ago," says Mr Wathelet, "a team from one of the regions would go to the US with three possibilities in mind. The first was that they would attract a company to their part of the country, the second was that it would go elsewhere in the world, and the last, and most depressing, was to find

that it had gone to the other region. We have to learn that the second best solution for us is that the company goes to Flanders, not France or West Germany, and vice versa as far as the Flemish are concerned."

No one suggests that attitudes are changing overnight but the regional governments have recently set up a "hot line" to co-ordinate their promotional efforts and to ensure that outsiders do not exploit any lack of communication between Flanders and Wallonia to "up the ante" unfairly. There is also an unwritten "code of good behaviour" at political level designed to outlaw the not uncommon practice of promoting one region by blackening the reputation of the other.

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Aquino denies CIA operations

By Richard Gourlay in Manila

President Corason Aquino yesterday denied knowledge of any CIA operations in the Philippines following reports that she had approved a multi-million-dollar operation against Communist insurgents in the Philippines that was authorised by President Ronald Reagan.

The report in Newsweek magazine quoted a "critical Washington source" as saying that Mr Reagan had approved the CIA operation which calls for intelligence gathering and the launch of undercover political activities in the Philippines. The CIA will add about a dozen agents to its 115-member station in Manila, the report said.

HK press law under attack

THE Hong Kong Foreign Correspondents' Club asked Monday for a meeting with Sir Geoffrey Howe, British Foreign Secretary to voice opposition to the Colony's new press law, AP reports from Hong Kong. The law, proposed by this British colony's government, makes the publication of "false news" that is likely to cause public alarm a crime punishable by up to HK\$100,000 (£8,130) in fines and two years imprisonment. It took effect last Wednesday. Media, Church and academic groups have strongly opposed the measure.

Indonesia curbs election news

INDONESIA announced restrictions yesterday on foreign journalists covering next month's elections, limiting access to the countryside and requiring authorisation to report on activities in the capital, Renter reports from Jakarta. Information Ministry guidelines issued to foreign reporters in effect restrict access to the countryside where 80 per cent of Indonesia's 168m people live. They require journalists to report their presence to the Information Department and certain government officials when they visit any of the 27 provinces of Indonesia.

Syria-Iran alliance perched on a Beirut knife-edge

Andrew Gowers reports from Damascus on the strains wrought by the presence of Iranian fundamentalists in Lebanon on the close relationship with Tehran

from Heathrow to Tel Aviv.

OVER THE past few days as the life of a Western hostage in Lebanon has perched once again on a knife edge, so has one of the most important strategic relationships in the Middle East, that between Syria and Iran.

Distinct rumblings of anger could be heard in Damascus as the Revolutionary Justice Organisation, one of the proliferating and loosely defined pro-Iranian groups in Beirut's southern suburbs, warned that it was about to execute Mr Jean-Louis Normandin, a French television technician.

President Hafez al-Assad of Syria sent his troops into West Beirut last month in a mission to improve the image of his country as well as to restore order to the streets. He also wants, it is assumed, to secure the release of hostages to improve his state's image in the West which was tarnished by the Hindawi affair in which a Jordanian, carrying a Syrian passport, was convicted in London of attempting to blow up an El Al airline on a flight

The killing of a hostage not far from the Syrian guns would in all probability be interpreted by Mr Assad—a cautious man but ruthless when roused—as a slap in the face. It might be enough to persuade him to send his forces into Beirut's southern suburbs which have been the principal breeding ground for pro-Iranian Shia militancy. Even if Mr Normandin is spared, many observers believe broader confrontation is brewing between Syria and Iran in any case.

If there were to be a breach between the two countries, the repercussions could be profound. Syria has been Iran's most important and consistent ally in its war against Iraq. This relationship allows the Iranian leadership of the Ayatollah Khomeini to maintain that its campaign is not a confrontation with the Arab world in general, but is solely aimed at deposing the Iraqi regime which both the Ayatollah and Mr Assad detest.

The withdrawal of such an ally would be a heavy psychological blow for Tehran. It is not as if the latest tension between Syria and Iran is an isolated incident. Sparks have flown sporadically between the two countries ever since Syria permitted Iran to send Revolutionary Guards into Lebanon's eastern Bekaa Valley.

Tehran's influence in Lebanon—through its proxy, the Hizbollah, or Party of God—has grown steadily since the withdrawal of the Israeli army in 1982. The conflict of objectives has been thrown sharply into focus by Mr Assad's decision to send

his troops back into West Beirut, and more particularly by the killing of 23 Hizbollahis in Beirut's Basta district on February 24 at the hands of Syrian soldiers.

There has been a stream of high level Iranian visitors to Damascus in the past few weeks, including most recently Mr Ali Akbar Montashemi, the country's Interior Minister and former ambassador to Syria.

While Tehran has sharply attacked Syrian actions, Mr Assad has made it perfectly clear that he will not brook such criticism, and that Syria will do whatever it considers necessary to restore order in Beirut.

The confrontation may escalate further. Many observers believe that the Syrian forces' mission will be incomplete unless they eventually move to disarm the Hizbollahis in the southern suburbs.

Furthermore, the trouble in Lebanon coincides with other potential reasons for strain between Tehran and Damascus. The rationale behind Syria's

support for Iran in the Gulf War has begun to wear thin as Tehran's forces have continued to occupy Arab territory, some of the economic underpinning for the Syrian-Iranian friendship has crumbled and there have been reports that Syria, which has a contract to buy 5m tonnes a year of cheap Iranian oil, has not taken any of its crude since last April. It is also believed to owe Iran \$2.3bn in overdue payments.

All this is not to say that Syria is about unilaterally to make a break with Iran. The bond which ties the two countries in the Gulf War is strong and Syrian officials emphasise their attachment to the general aims of Iran's revolutionary leadership.

Up to now, President Assad has been willing to pay the price in Lebanon—by allowing the Iranians an entire there—for his stance in the Gulf War. But it is by no means certain that he will continue to do so if his forces in Beirut meet real trouble from groups claiming allegiance to Tehran.

There is no news, meanwhile, about the fate of Mr Jean-Louis Normandin, the French hostage, threatened with execution deadline of 6 p.m. GMT on Monday by the Revolutionary Justice Organisation unless Paris clarified its Middle East policy.

Car bomb at Syrian checkpoint

By Our Middle East Staff

A CAR bomb exploded in West Beirut at a Syrian Army checkpoint yesterday injuring one person and setting three cars on fire. It was the fourth blast in the city sector since Syrian troops occupied the sector of the city just over three weeks ago.

There is no news, meanwhile, about the fate of Mr Jean-Louis Normandin, the French hostage, threatened with execution deadline of 6 p.m. GMT on Monday by the Revolutionary Justice Organisation unless Paris clarified its Middle East policy.

Sheikh Mohammed Hussein Fadlallah, the spiritual guide of the pro-Iranian Shia fundamentalist Hizbollah, which is believed to be linked to the organisation, said Mr Normandin's kidnappers had been influenced by his appeal on Sunday to spare the French TV crewman's life.

Portugal wants a step-by-step Macao handover

BY DIANA SMITH IN LISBON

PORTUGUESE negotiators are returning to Peking today willing and able to discuss the gradual handover of Macao, the tiny territory on the coast of the South China Sea that Portugal has administered for over 400 years—but not sure that all ground has been covered thoroughly enough to permit a draft final agreement at this stage.

The main difference between the Chinese and Portuguese approach to agreement over when and how Macao is handed back to the People's Republic of China appears to be that the Chinese are pressing for firm commitment to the earliest possible start-of-handover-date (possibly 1996) with work on details left for later. The Portuguese want to draw before committing themselves to a firm date.

Macao handover. The bitter aftermath of nasty, Marxist-inspired decolonisation in 1975 that left civil and tribal war in Angola, in shambles and in due course, terrible famine, in Mozambique, severe economic difficulties in Cape Verde, Guinea-Bissau and Sao Tome/Principe and according to persistent reports, genocide of the Maubere people in Timor after Indonesia's annexation in 1976.



Traffic in Macao: reassessment by Portuguese banks and industrialists

It is an oddity in Portugal's history of overseas administration, because it was not a colony or "overseas province" (the old Portuguese euphemism for colony), but a Chinese territory conceded to Portuguese management almost half a millennium ago on an emperor's agreement until further notice.

The Portuguese presence is far less perceptible, apart from the architecture, than it was in Africa. Only a few thousand Macao residents are Portuguese-born: 50 Chinese Macaenses registered under a facility granted after 1975 for Portuguese citizenship, the rest of the

400,000 population is Chinese. Paradoxically, now that the territory is due for handover—sometime between 1996 and the turn of the century—Portuguese bank and industrialists are reassessing Macao as a gate to Far East markets. A pharmaceutical plant, Hovione, opened early this year, Portugal's Tudor batteries is building a unit and privately-owned Portuguese commercial banks are considering branches in Macao.

Australian current account deficit cut by trade boost

BY CHRIS SHERWELL IN SYDNEY

A RARE swing into surplus on the visible trade account helped reduce Australia's February current account deficit to A\$750m (£334m) from January's A\$1.24bn, according to balance of payments figures published yesterday.

The improvement was seized upon by both Mr Bob Hawke, the Prime Minister, and Mr Paul Keating, the Treasurer, who said the figures proved the Government's economic policies "are right and are working as planned."

The closely-watched figures were broadly in line with expectations and, as in previous months, the foreign exchange markets took the news largely in their stride.

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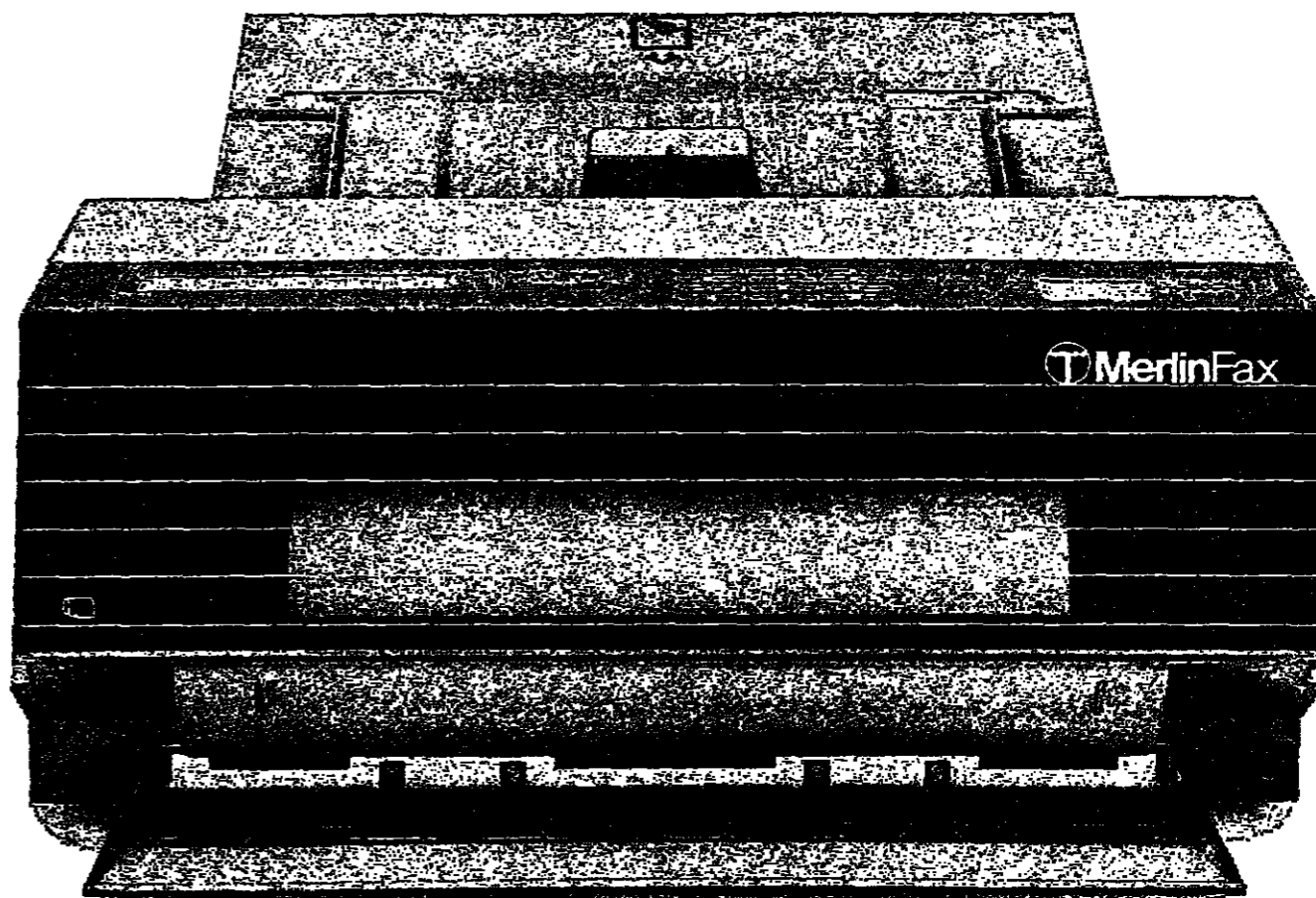
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WORLD TRADE NEWS

Trade pact will boost Canada, says Mulroney

By Bernard Simon in Toronto

CANADA'S Progressive Conservative Government has unequivocally linked conclusion of a free trade agreement with the US to the country's long-term economic well-being.

Making his strongest call for public support for the 10 months old negotiations, Mr Brian Mulroney, the Canadian Prime Minister, said during a special parliamentary debate that free trade could create "hundreds of thousands" of new jobs and help narrow the wide disparities among Canada's far-flung regional economies.

The government disclosed during the debate that negotiators are working towards a far-reaching agreement, to include agriculture, industrial subsidies, customs procedures, investment services and intellectual property.

Remaining tariffs on the C\$170bn (\$85bn) in two-way trade would be phased out over a period of 10 to 15 years.

Miss Pat Carney, Minister for International Trade, said that Canada had proposed dropping federal government procurement preferences in return for an end to US Buy America policies insofar as they relate to Canadian suppliers. The Canadians are also pressing for an impartial bilateral tribunal to settle disputes.

On the other hand, Ministers said during the debate that Canada's regional development subsidies, social security programmes, farm marketing boards and measures protecting cultural industries are not on the bargaining table.

After a meeting between the two teams in Ottawa, the chief US negotiator, Mr Peter Murphy, confirmed that both sides aimed to draw up a draft agreement by June.

He cautioned, however, that "we're trying to push forward with liberalising measures at a time when Congress is going in just the other direction."

The special debate has helped thrust the free trade issue to the centre of the Canadian political stage. The Government has become increasingly outspoken in its support for free trade in recent months as chances of an agreement have brightened.

Mr Mulroney apparently sees a successful conclusion of the talks as a key opportunity to boost his party's sagging popularity.

Tokyo sees collapse of the Fairchild deal as an expression of Washington's anger over trade relations
Japan voices concern at blow to Fujitsu

JAPAN HAS swiftly voiced its concern at the collapse of the controversial plan under which Fujitsu, the Japanese electronics group, would have bought Fairchild Semiconductor of the US.

It sees the termination of the pact whereby Schlumberger was seeking to sell 80 per cent of its Fairchild subsidiary to the Japanese company as an expression of official US anger over its trade relations with Japan.

Mr Hajime Tamura, Japan's Minister of International Trade and Industry, blamed mounting political pressure against the deal in the US for the collapse of the deal.

Fairchild echoed the Japanese reaction by blaming political pressure from Washington for Monday's announcement bringing the deal to an end.

The collapse has also resurrected talk of a management

buyout at Fairchild and of an alternative buyer for the company which once led the world in chip technology but has since seen its prowess decline.

Mr Tamura yesterday in Tokyo criticised the statements made last week by Mr Malcolm Baldrige, US Commerce Secretary, and Mr Caspar Weinberger, Defence Secretary.

Miti officials said later that while they assumed that the final decision to call off the deal was not made by the US Government, they found the Baldrige and Weinberger comments disturbing, unreasonable, regrettable and "difficult for us to understand."

Fujitsu said it agreed with Schlumberger to abandon the deal out of consideration for the mounting political opposition in the US to it.

Completion of the deal had been delayed by an unusually thorough US Justice Department



Mr Hajime Tamura



Mr Malcolm Baldrige

anti-trust investigation. The US government was widely believed to have been using this to obstruct the deal because of national security and inter-

national trade grounds. It feared a "domino effect" in which other Japanese companies would try to acquire US chip manufacturers.

In a memo to employees, Mr Donald Brooks, Fairchild president, said: "Political pressure from Washington made it impossible for Fujitsu to proceed" with the acquisition of Fairchild Semiconductor.

Cancellation of the merger came, however, as a shock to Fairchild. Only last Thursday, Mr Brooks had reassured Fairchild employees that the Justice Department investigation was proceeding as expected and that the company's lawyers were confident that the deal would go through.

Industry critics of the proposed acquisition welcomed news of the cancellation. "Fujitsu got the message that the US government is not going to allow legal rape and pillage of the US semiconductor industry," said Mr Wilbur Ross, president of LSI Logic, a major Silicon Valley chip producer, and former

president of Fairchild Semiconductor.

For Fairchild, the cancellation of the Fujitsu proposal means that the company must move quickly to find alternative investors.

Schlumberger, which has owned Fairchild since 1979 and poured an estimated \$1.5bn into the company without seeing any return on its investment, is believed to be anxious to unload its loss-making subsidiary.

On Monday Mr Brooks said that he had proposed a management buyout. He is understood to have renewed efforts to raise financing for a buyout, which had been considered before the Fujitsu proposal.

Fairchild was the original Silicon Valley chip manufacturer. The company had estimated sales of \$49m last year, making it the seventh largest chip maker in the US.

Nakasone urges more effort to end semiconductor row with US

BY IAN RODGER IN TOKYO

MR YASUHIRO NAKASONE, Japan's Prime Minister, called on the country's Ministry of International Trade and Industry (MITI) to make greater efforts to resolve the semiconductor trade dispute with the US.

The Prime Minister's intervention came with only two weeks remaining until the day, April 1, on which the US Government is threatening to withdraw from the chip trade agreement signed last September.

On the other hand, Ministers said during the debate that Canada's regional development subsidies, social security programmes, farm marketing boards and measures protecting cultural industries are not on the bargaining table.

After a meeting between the two teams in Ottawa, the chief US negotiator, Mr Peter Murphy, confirmed that both sides aimed to draw up a draft agreement by June.

He cautioned, however, that "we're trying to push forward with liberalising measures at a time when Congress is going in just the other direction."

The special debate has helped thrust the free trade issue to the centre of the Canadian political stage. The Government has become increasingly outspoken in its support for free trade in recent months as chances of an agreement have brightened.

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Mr Nakasone met with MITI Minister Mr Hajime Tamura and MITI officials for nearly an hour yesterday, during which he expressed on them the importance of the issue in US-Japan trade relations and the need to do everything possible to resolve the dispute.

Later, MITI officials revealed the results of a study of semiconductor markets in Hong Kong and Singapore aimed at finding out whether or not US

charges of dumping by Japanese producers in third markets were true.

Mr Yukio Honda, the MITI official who carried out the study, said it showed that Japanese makers were selling 256K dram chips at \$2 apiece or so in South East Asia markets in conformity with the chip agreement, and significantly above the prevailing market price there of about \$1.80 to \$1.70.

Consequently, their new orders in December were about 65 per cent below the average level last summer.

The lower-priced chips were being supplied by US, Korean and grey market operators from Japan, Mr Honda said.

"The grey market operators included some US and other foreign companies as well as small Japanese trading companies that had bought chips at low prices in Japan and then exported them."

Mr Honda was confident that the 20 per cent cut in Japanese production imposed by MITI last month would cause the "grey" market to disappear and prices to firm. Production would be curtailed to a similar extent in the second quarter, he said.

MITI officials said to accelerate rise in chip exports that had appeared in recent trade statistics was due to exports of linear and logic chips and long consumer products. Exports of memory chips covered by the chip agreement were in fact

declining, they added.

Mr Osamu Watanabe, director of MITI's American and Oceanic Division, said Mr Honda's study indicated that the Japanese Government was implementing the agreement. It was regrettable that a lot of people with very little knowledge of the facts were claiming that Japan was breaking the agreement.

He suspected that US officials were conducting their own studies now and looked forward to meeting them soon.

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India smelter order goes to Davy McKee

By John Elliott in New Delhi

DAVY MCKEE of the US has been awarded a \$16m, lead and zinc smelter design contract by India's government-owned Hindustan Zinc Limited.

This is the first of a series of contracts for construction of an aluminium smelter which the UK Government has agreed to finance with grants totalling \$72.65m.

Britain has beaten potential competitors for the work from Canada and Japan whose governments were not prepared to match the UK offers of aid.

Dragon Airlines wins route to Malaysia

BY DAVID DODWELL IN HONG KONG

HONGKONG Dragon Airlines yesterday won a licence from the territory's Air Traffic Licensing Authority (ATLA) to operate services to Johore Bharu in Malaysia.

This modest sweetener came after Atla first dismissed its objections to applications from Cathay Pacific Airways to add Toronto to five other North American destinations, and then rejected its bid to replace Cathay on routes to Kota Kinabalu in Sabah, and Penang, north of Kuala Lumpur.

Dragonair has now won licences to operate services to 34 routes around Asia, most of which are secondary cities inside mainland China. However, slow progress in air traffic right negotiations between Britain's Department of Transport and governments in Asia where Dragonair has been granted licences, means that most of its services are still ad hoc charters.

The fledgling carrier has acknowledged that operating losses amount to about HK\$4m a month.

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China moves up world shipbuilding league

By Kevin Brown, Transport Correspondent

CHINA overtook West Germany last year as the world's third largest shipbuilder behind Japan and South Korea, according to figures issued yesterday.

Lloyd's Register, the independent London-based classification society, said in its annual summary of merchant ship completions that Chinese production rose by 44 per cent to 641,451 gross tons. Only a small percentage was for export.

This compares with a fall of 2.1 per cent in West German production to 512,294 gross tons. The Chinese figures include production in Taiwan, however, which is treated by Lloyd's as a province of mainland China.

The report shows that Japanese production fell by 14 per cent to 5,177,933 gross tonnes, reflecting over-capacity in Japanese yards and lack of competitiveness caused by the appreciation of the yen.

South Korean output rose by 39 per cent to 3,621,466 gross tonnes, following aggressive marketing by South Korean yards, which have led a trend to lower prices.

Lloyd's said Japanese output represented 44.5 per cent of the world total, compared with 52.9 per cent in 1985. South Korea accounts for 22.8 per cent of world production, compared with 14.4 per cent in 1985.

The UK produced 36 ships totalling 96,895 gross tons, down from 171,949 gross tons in 1985. This compares with production of more than 1.5m gross tons in 1972.

Other leading shipbuilding nations were Brazil, which produced 429,858 gross tons (down 151,885) Poland 375,261 gross tons (up 14,885) East Germany (361,689, up 2,667) and Denmark (361,482, down 96,104).

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AMERICAN NEWS

Reagan to give live TV press conference

By Lionel Barber in Washington

PRESIDENT Ronald Reagan will emerge from four months of semi-isolation tomorrow to give a televised live news conference which will be seen as a test of his recent attempts to restore his authority and political credibility.

The 76-year-old President has enjoyed a minor renaissance since Mr Donald Regan, his abrasive Chief of Staff, resigned last month to be replaced by the much milder Mr Howard Baker.

Tomorrow Mr Reagan can expect to face a barrage of questions about his knowledge and role in the Iran arms scandal. His performance in his last live news conference on November 19 was unconvincing.

The White House decision to push Mr Reagan in front of the cameras reflects a victory for Mr Baker who has argued that it is vital to show the American public that the President is fully recovered from his prostate surgery in January and ready to take the initiative in his final two years in office.

Some White House officials had cautioned that Mr Reagan's faulty memory would be savaged by reporters and that this could create the opposite impression in front of television viewers.

The President's news conference could take on a fresh edge if, as seems likely, the two congressional select committees investigating the Iran scandal offer immunity today to Rear Admiral John Poindexter, Mr Reagan's former National Security Adviser and a key witness.

Mr Reagan will be closely questioned about whether he knew or approved of the clandestine activities of Mr Poindexter and Lt Col Oliver North in diverting profits from US arms sales to the Nicaraguan Contra rebels.

Despite the attention on the news conference, there are other substantive issues facing the President such as the appointment of a new FBI director to replace Mr William Webster who is to take over running the Central Intelligence Agency.

Mr Reagan must also decide, along with Mr Baker, whether to hold a budget conference with congressional leaders.

Lionel Barber in Washington follows the trail of corruption from a New York suburb all the way to Capitol Hill

The rise and fall of an Hispanic hero in a Bronx slum

IN March 1984, Mr Ronald Reagan, campaigning for a second term in the White House, heralded a tool-and-die maker of Puerto Rican descent from the South Bronx, New York, as "a hero for the 1980s."

Three years later, the tool-and-die maker, Mr John Mariotta, and his company, the Wedtech Corporation, a New York Stock Exchange-listed defence contractor with \$100m annual sales, are caught in a web of corruption which runs all the way from the Bronx to Washington DC.

This month, four former Wedtech executives pleaded guilty to conspiracy to bribe New York City, New York State and Federal officials and to offering illegal inducements to members of Congress and US Government officials.

At least two US Congressmen face indictments, one of President Reagan's former top political advisers is being investigated by a federal special prosecutor and the first stirrings of a presidential election campaign theme for 1988 are in the air.

The Wedtech story begins in October 1977 when President Jimmy Carter came to Charlot Street in the South Bronx. The area was America's best-known slum. The shops were either boarded up or vandalised, the evidence of arson pervasive. The original Irish, Italian, and Jewish settlers had either moved out earlier or were dying off: the blacks and Puerto Ricans were trapped in an impoverished local economy.

One person who stayed was John Mariotta. After three business failures he set up a

machine shop in a garage near Yankee Stadium, eking out a small profit and waiting, Mieser-like, for something better to turn up. President Carter's desire to make Charlot Street the cornerstone of his inner-city programme sent a signal that Washington was prepared to pump Federal money into the area. When Mr Reagan followed Mr Carter into the Bronx during a 1980 campaign trip, the message of hope took on new conviction.

Mr Mariotta's can-do spirit, his anti-welfare rhetoric and his Hispanic background caught the attention of some of those who followed Mr Reagan into the White House. Soon he found himself invited to meeting in Washington with Hispanic political leaders and middle ranking Reagan Administration officials. He learnt the value of political contacts and, in 1982, he even attended a group meeting with the President.

At this time Wedtech went by the name of Welbilt Electronics Die Corporation and the company was involved in bidding to supply horsepower generator engines to the US Army. The contract, worth up to \$100m, was awarded to Welbilt. He had won it by representing a short cut to rich pickings in the defence business which was dominated by the big American contractors but about to enjoy explosive growth under President Reagan's rearmament programme.

Since 1975 Welbilt sought to win Federal contracts by submitting tenders under section 8A of the Small Business Act

that he took on legal work for Welbilt, but denies any impropriety. Mr Meese, in testimony to the Senate judiciary committee this month, said he had discussed Welbilt with Mr Wallace "on a few occasions."

A more direct contact for Welbilt was Mr Lyn Nofziger, one of Mr Reagan's political advisers at the White House. Mr Nofziger left the Administration in January 1983—one year after Mr Reagan moved into the Oval Office—set up his own public relations partnership and took on Welbilt as one of his clients.

Shortly after a key White House meeting in May 1983, presided over by Mr James Jenkins, one of Mr Meese's deputies, Mr Nofziger wrote to his former colleague asking for a letter of intent from the US Army on the engine contract. He got the order.

This clause is unique in its breadth since it allows the Small Business Administration to take on government contracts and then to sub-contract them to ethnic minority companies on a no-bid basis.

For a small company like Wedtech, section 8A offered a chance for a hearing in Washington, and the prospect of a steady flow of government business. But its first bid to the US Army was rejected as far too high.

Faced with a towering bureaucracy at the Pentagon, the company turned to its network of political contacts which included two Californians, one of whom was Mr Robert Wallace, a lawyer and good friend of Mr Edwin Meese, then one of the President's closest advisers at the White House with the title of "counsellor."

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Mr Wallace has conceded that he took on legal work for Welbilt, but denies any impropriety. Mr Meese, in testimony to the Senate judiciary committee this month, said he had discussed Welbilt with Mr Wallace "on a few occasions."

fortunes created a problem: going public meant that Mr Mariotta—the co-founder of the business with the ethnic minority background—no longer had a controlling interest in the company, now rechristened Wedtech. That in turn meant that Wedtech no longer qualified for non-competitive contracts under the section 8A programme.

A complex share deal was arranged whereby one third of the company's shares were reshuffled back to Mr Mariotta, who agreed to pay for the shares at a later date. The SBA questioned whether Mr Mariotta could still qualify as an economically deprived "businessman, but approved the deal nonetheless.

Wedtech continued to draw the primary source of its income from the section 8A programme and to be a prime beneficiary.

Throughout its period of growth between 1977 and 1985, when it won more than \$500m of contracts under the section 8A programme, Wedtech assiduously cultivated key figures in the local political establishment.

This week, Congressman Marco Biaggi of New York, along with the 80-year-old former-Democrat leader of Brooklyn, were both indicted on unrelated corruption charges.

It was Wedtech's misfortune to lock into the Democrat Party machine in the Bronx just as the party was about to confront the greatest threat to its existence for 20 years: a wide-ranging federal, state and local police investigation into corruption led by Mr Rudolph Giuliani,

the US attorney in New York. This month, Mr Giuliani, aided by the Manhattan district attorney and the Bronx district attorney, achieved a major breakthrough in the Wedtech investigation, persuading four former executives to plead guilty to bribery and fraud offences. In return the four have agreed to give evidence against other, so far unnamed, politicians.

A taste of what is about to come appeared during the brief on a racketeering conviction, and two other leading Democrats resigned office.

Mr Mariotta has yet to be charged with any offences and he has declined to be interviewed.

The smooth exit of government officials into the private sector may well be reviewed by Congress. Wedtech scandal unfolded. So too will the SBA's 8A programme which gives ethnic minority business around \$5bn of government contracts a year.

Wedtech itself has filed for reorganisation under chapter 11 bankruptcy laws; 1,500 people have lost their jobs.

State Security police, armed with sweeping powers under a 1985 state of emergency decree, have concentrated on preventing the emergence of an "internal front." Contra leaders have said one of their main goals was to set up such a network.

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US current account deficit at record \$140bn

BY LIONEL BARBER

THE US current account deficit in 1986 amounted to a record \$140.57bn compared to a 1985 deficit of \$117.68bn, the Commerce Department reported yesterday.

The size of the current account deficit—the broadest measure of the nation's trade balance because it covers goods and services—will intensify pressure in Congress to take retaliatory action against countries with big trade surpluses with the US such as Japan.

The Commerce Department has recently expressed renewed dissatisfaction with Japan over its apparent reluctance to open

its markets to US exporters and tensions between the two is high on a range of issues from semiconductors to supercomputers.

The strong yen took its toll on the Japan economy in 1986, with official figures showing that economic growth slowed to 2.5 per cent, down from 4.7 per cent in 1985. These figures could increase pressure on the Japanese Government to stimulate its domestic economy.

Last week, Mr Clayton Yeutter, the US Trade Representative, said: "The frustration with Japan is higher than I have

ever seen it," and he warned that a presidential veto of a trade bill on Capitol Hill could become "irrelevant" if such legislation should pass over his veto.

The main reason for a record fourth quarter deficit for 1986—\$36.84bn compared to a revised \$35.29bn in the third quarter—was a widening gap in the trade of goods. The merchandise trade deficit in the fourth quarter was \$38.45bn, up from \$37.15bn in the third quarter.

The powerful House Ways and Means Committee is expected to begin work on legislation this week to present its

Contras blast pylon in Managua

BY PETER FORD IN MANAGUA

ANTI-SANDINISTA rebels blew up an electricity pylon in the capital before dawn

APPOINTMENTS

Grampian TV chief executive

GRAMPIAN TELEVISION has designated Mr Donald H. Waters as the company's new chief executive. The appointment becomes effective on the 1st of November. Mr Waters, who has been with Grampian since its opening in 1961, first as company secretary, and for the past 17 years as chief executive. He joined in 1975 as company secretary. He became a board member in 1979 and is a director of Moray Firth Radio and Grampian subsidiaries Blackburn Travel and Glenburnie Properties.

Mr Norman Holden has been appointed European regional director for THOMAS COOK FINANCIAL SERVICES. He was previously with the Standard Chartered Bank holding posts both in this country and abroad.

Mr Terry Murray has become managing director of MITCHELL SHACKLETON & CO, a subsidiary of Nations Forge Co of Irvine, Pennsylvania, USA. He was a director and general manager of NE-APC Crossley Engines, Manchester.

Mr R. A. Lawson will be joining VINTEN GROUP as group managing director. He is currently with R. S. Components, a subsidiary of Electrocomp, where he has been sales director since 1979. Mr Lawson will succeed Mr Michael James

who has recently stepped down from that office.

Mr John Johnston has been appointed to the board of INITIAL as group finance director. He was previously group controller. Mr Nigel Ash has been promoted to Mr Johnston's previous post with Mr David Lindsay becoming group accountant.

LOW & BONAR has appointed Mr Walter L. Telfer to the new



Mr Walter Telfer, deputy group chief executive, Low & Bonar

post of deputy group chief executive, while remaining group finance director. He was

appointed to the parent board as group finance director in February 1982, having joined the group in September 1976. Mr Telfer is also a director of Low & Bonar UK, Bonar Inc (the company's Toronto Stock Exchange publicly quoted subsidiary), A. T. Mays Group and a number of other companies. Following this move, Mr Norman B. McLeod is promoted to deputy group finance director, and also joins the board of Low & Bonar UK. He joined the group in September 1977 and, prior to becoming group financial controller in January 1985, he was finance director of Bonar Long.

Mr W. R. Parsons has been appointed managing director of MERCHANT INVESTORS ASSURANCE. He has been general manager since March 1984. The previous incumbent, Mr J. M. Seussens, remains a director and also becomes chairman.

ROYAL TRUST BANK has appointed Mr Michael P. Towse as divisional director with responsibility for property finance. He joined from the State Bank of South Australia.

CITIBANK LONDON'S financial institutions group has appointed Mr Stafford Crane as senior banker for insurance banking in Europe. Mr Peter Hayes will assume responsibility for the insurance banking division in London.

Mr David Hadd has been appointed chairman and chief executive of INOCO. He is non-executive chairman of the Kunkin Leisure Group and was until recently chief executive of the company.

Mr Roger M. Phillips is to be managing director of LEYLAND DAF MARKETING & SALES ORGANISATION from April. Mr Ian Jones has become truck sales director.

Mr R. C. (Dick) Pemberton and Mr John R. Smith have been appointed directors of TAYLOR WOODROW ENERGY. Mr Peter Jordan becomes a divisional director. Mr Pemberton is deputy



Mr Donald Waters, who is to become chief executive of Grampian TV in November

managing director of Taylor Woodrow Overseas. Mr Smith is a divisional director of Taylor Woodrow Energy. Mr Jordan was appointed a director of Seaford Maritime in 1983 and managing director of Fleetech, which is jointly owned by Taylor Woodrow Construction and Seaford Maritime, on its inception in 1985.

THE MINSTER INSURANCE GROUP has appointed Mr David Pocock as UK general manager



Mr David Pocock, chief motor manager, Minster Insurance Group

and chief motor manager. He joined in 1984 as group motor manager and became group assistant general manager in 1986.



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(Philips' Industries)
and
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van Aandeelen Philips'
Gloeilampenfabrieken
(Philips' Lamps Holding) Eindhoven

Notice convening the
ORDINARY GENERAL MEETING OF SHAREHOLDERS

to be held on Wednesday, April 8, 1987, at 2.00 p.m., in the "Philips' Jubileumhal" in Eindhoven, entrance Mathildelaan/Frederiklaan. Shareholders of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken are also entitled to attend the Ordinary General Meeting of Shareholders of N.V. Philips' Gloeilampenfabrieken to be held at the same time and at the same place.

The Annual Report 1986 and the Financial Statements 1986 of both companies as well as the complete agendas for both meetings have been deposited for inspection and are available free of charge at the office of the Company (Groenewoudseweg 1) and at the head offices of the banks listed below and have been sent to the holders of registered shares. The items on the agendas are as follows:

N.V. PHILIPS' GLOEILAMPENFABRIEKEN	N.V. GEMEENSCHAPPELIJK BEZIT VAN AANDELEN PHILIPS' GLOEILAMPENFABRIEKEN
1. Opening	1. Opening.
2. Report of the Board of Management for the financial year 1986.	2. Report of the Board of Governors for the financial year 1986.
3. Report of the Supervisory Board on the financial statements for 1986.	3. Adoption of the 1986 financial statements and declaration of a dividend.
4. Adoption of the 1986 financial statements and declaration of a dividend.	4. Designation of the Board of Governors as the body authorised to issue shares or rights to shares and to limit or suspend preferential rights.
5. Designation of the Board of Management as the body authorised to issue shares or rights to shares and to limit or suspend preferential rights.	5. Granting of authorisation to the Board of Governors to purchase shares in the Company.
6. Granting of authorisation to the Board of Management to purchase shares in the Company.	6. Composition of the Board of Governors.
7. Composition of the Board of Management.	7. Any other business.
8. Composition of the Supervisory Board.	8. Conclusion.
9. Any other business.	
10. Conclusion.	

In so far as this is laid down in the Articles of Association, the proposals for nominations, together with information relating to the persons proposed, have been deposited for inspection and are available free of charge at the office of the Company (Corporate Finance Securities) and at the Amsterdam-Rotterdam Bank N.V., Herengracht 595, in Amsterdam.

Shareholders of N.V. Philips' Gloeilampenfabrieken who wish to attend the meeting, either in person or by proxy, must notify the Company not later than April 1, 1987, in the way indicated in the letter of convocation sent to them by the Company.

Shareholders of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken who wish to attend the meetings, either in person or by proxy, must notify the Company not later than April 1, 1987. The following regulations apply.

- A. Holders of share-certificates to bearer should deposit such certificates not later than April 1, 1987, at one of the following banks in exchange for a receipt which will entitle the holder to admission to the meeting.
- in the Netherlands the Amsterdam-Rotterdam Bank N.V. in Amsterdam, Herengracht 595; the Algemene Bank Nederland N.V. in Amsterdam, Vijzelstraat 32; or at the office of the Company in Eindhoven, Groenewoudseweg 1.
 - in the United Kingdom Hill Samuel & Co. Ltd., London.
- B. Holders of registered shares must notify the Company not later than April 1, 1987, in the way indicated in the letter of convocation sent to them by the Company:
- with respect to shares of the Eindhoven Registry: at the office of the Company;
 - with respect to shares of the New York Registry: at the office of Bankers Trust Company, Corporate Trust & Agency Group, P.O. Box 318, Church Street Station, New York, N.Y. 10015.

Requests for copies of the Philips Annual Report 1986 and the Financial Statements 1986 should be sent to N.V. Philips' Gloeilampenfabrieken (Corporate Finance Investor Relations, P.O. Box 218, 5600 MD Eindhoven).

Eindhoven, March 18, 1987

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UK NEWS

Rivalry for air services from Gatwick grows

BY LYNTON MCCLAIN

COMPETITION for scheduled air services in Europe intensified this week with hearings at the Civil Aviation Authority into applications by British Caledonian Airways and Air Europe. Both want to increase services from Gatwick, south of London.

The fight for routes comes as the European Commission in Brussels is set to consider, possibly today, taking legal action against Lufthansa and other European airlines for possible breaches of its competition rules.

Air Europe, which began as a charter airline, wants to start 11 new scheduled services: to Amsterdam, Brussels, Copenhagen, Düsseldorf, Frankfurt, Munich, Geneva, Zurich, Milan, Rome and Paris.

Mr Harry Goodman, chairman of Air Europe and International Leisure Group, its parent company, said in giving Air Europe's evidence "In European aviation, there is too little access, too little competition and too high fares."

The airline signed a lease agreement last week, subject to financing, for five Boeing 737-400 and five Boeing 737-400, valued at a total of \$375m.

BCal, the main scheduled airline at Gatwick, wants to start five new low-fare routes to Athens, Copenhagen, Oslo, Rome and Stockholm. They would be operated on the basis of seats allocated partly for charter and partly for scheduled passengers.

BCal is anxious to win all the proposed routes, but its big target is Scandinavia.

A number of economy class seats would be marketed to tour operators, at fares BCal said would be competitive with charter rates.

Air Europe says its plans are in line with the Government's airline competition policy, which encourages new entrants to start new services.

BCal is opposing the applications by Air Europe, and Air Europe is opposing the BCal applications. Other airlines, including British Airways, British Island Airways, Connexair and Dan Air are also opposing routes proposed by both airlines.

BCal said its opposition was partly aimed at curtailing further competition at Gatwick.

Air Europe and BCal both want to offer low fares on their proposed routes.

Barclays to set up fund for buy-outs

By Charles Batchelor

BARCLAYS DE ZOE WEDD, the securities arm of Barclays Bank, plans to establish a £20m-£30m fund to finance management buy-outs. The fund will take the form of a unit trust and will be wound up after 11 years at the most.

The Barclays de Zoete Wedd Buy-Out Trust, which is based in Jersey, is the latest in a series of funds specialised in enabling managements to buy their company from the parent group. Over the past few years several large buy-out funds have been launched, including the £300m Electra Crossover Direct Investment Fund and the £100m Charterhouse Development Capital Fund.

The new Barclays trust intends to invest amounts of between £500,000 and £1.5m in buy-outs, with a total value of between £2m and £5m. Investment adviser to the fund will be Barclays Development Capital, which intends to invest on its own account in buy-outs financed by the trust.

The new trust will mean Barclays Development Capital will be able to share the risk of buy-outs it backs with other investors and that it can respond quickly to proposals put to it.

Bond Corporation plans £30m satellite broadcasting stake

BY RAYMOND SNOODY

THE BOND Corporation of Australia has reached agreement in principle to invest £30m in Britain's direct broadcasting by satellite (DBS) project.

The investment will mean that Mr Alan Bond, the Australian businessman whose interests range from brewing to broadcasting will probably be one of the largest single investors in the venture.

The five founder shareholders in British Satellite Broadcasting (BSB) have already committed £20m and are now in the process of raising a further £120m by the end of April so that contracts for satellite manufacture can be signed.

Mr Bond, who was a member of one of the unsuccessful consortia which applied to the Independent Broadcasting Authority for the na-

tional three channel DBS franchise is likely to be the only Australian businessman able to join BSB.

Mr Derek Lewis, finance director of the Granada group, which put together the BSB consortium said yesterday that negotiations were now going on with "a core of six to eight serious potential investors."

"If they all come through there will be more than enough to meet the £120m," Mr Lewis said. About half are from the UK and major companies from the US and Europe are also expressing interest.

Mr Lewis said that "more than one" of the original investors - Granada, Pearson (owners of the Financial Times), Virgin, Amstrad Consumer Electronics and Anglia Television - was interested in increasing its stake. The total cost of

the project is likely to be £300m.

Mr Lewis believes that at least letters of intent to cover the £120m will be signed by the end of next month. The rivals for the satellite contract, which will be in excess of £100m, have been narrowed down to three companies which have met BSB's conditions. Negotiations are now concentrating on price.

The three companies with "live" offers include British Aerospace and Comsat, the US satellite organisation which has two "substantially complete" satellites for sale after the collapse of plans for a DBS service in the US.

Comsat satellite, despite the need for modifications might be best able to meet BSB's desire to launch both a satellite and a broadcasting service in 1989.

Murdoch media group 'leads world'

MR RUPERT MURDOCH'S News Corporation has become "the most dynamic media enterprise in the world," stockbroker Kleinwort, Gruveson Securities argues in a new study.

"There is a definite trend there of acquiring undervalued properties, turning them around and doing good deals," Mr Luke Johnson, media analyst at Kleinwort, says.

Kleinwort estimates that News Corporation's pre-tax profits of

£161m in the year to June 1986 will rise to £230m by 1989.

The recent acquisition of the Herald and Weekly Times group and simultaneous disposal of electronic media assets in Australia gave News Corporation an overwhelming dominance of the Australian newspaper industry. There were now "major opportunities to benefit from rationalisation and economies of scale," Kleinwort believes.

In Britain, Mr Murdoch's News International, Publisher of The Times, Sunday Times, Sun and News of the World, had benefited more than any other participant from the Fleet Street revolution. Earnings per share from the UK operations were up 22 per cent in the year to December 1986 and the prospect of Sun and News of the World cover price increases would bring further improvements in margins.

Super Channel seen in half Europe's cable TV homes

BY RAYMOND SNOODY

SUPER CHANNEL, the 24-hour British satellite television channel, is being watched in more than half the 7.4m cable television homes in Europe in which it is available.

The viewing figures - produced by Research Services after a telephone survey - have been achieved despite substantial changes to planned schedules because individual members of Equity, the actor's union, failed to agree to release of programmes.

Super Channel is funded by all Britain's TV companies, apart from Thames Television, and the Virgin Group. The BBC has also agreed to supply programmes for the channel, although it is not an equity investor.

Problems with Equity union members withholding consent for transmission have mainly affected BBC programmes.

Mr Richard Hooper, joint managing director of Super Channel, said yesterday that more consents from Equity union members were beginning to come in. In April, the scheduled programme will be 85 per cent to 90 per cent complete and by May there would be very little difference between the planned schedules and what was actually transmitted.

The BBC alone has sent out 7,300 letters to actors asking for permission for programmes to be broadcast by Super Channel.

doth's general entertainment channel.

In the Netherlands, Super Channel's biggest market with 2.1m homes, 63 per cent of cable homes had watched the channel. In Scandinavia the figure was 55 per cent, in Belgium 51 per cent and in West Germany, where there is traditional opposition to foreign television, Super Channel has achieved a weekly viewing figure of 50 per cent.

Awareness of the channel, launched in January, has also been rising sharply. In the Netherlands, awareness rose from 10 per cent two weeks before launch to 85 per cent two weeks after and in Scandinavia awareness has grown from 52 per cent to 92 per cent.

"We are very happy with the progress made so far," Mr Hooper said yesterday.

The operations of Premiere and Home Video Channel, both film channels for cable television, are to be merged and British Telecom will join the new partnership. Heads of agreement have been signed and the full agreement is expected to be concluded soon.

In the new partnership, Mirror Group Newspapers and RT Vision will each have 30 per cent of the equity. The other existing Premiere shareholders - 20th Century Fox, Columbia Pictures, Home Box Office and Showtime - will each have 10 per cent.

Peat Marwick to merge with Nolan Norton

BY RALPH ATKINS

PEAT MARWICK International, the consultancy and management consultancy group, is merging with Nolan Norton, the fast-growing US information technology consultants.

The merger comes two weeks before Peat Marwick completes its merger with Klynveld Main Goerdeler, which will make it the largest consultancy group in the world. Nolan Norton will increase its UK revenue from consultancy work by about 10 per cent.

Nolan Norton, based in Boston, was formed in 1974. It specialises in strategic uses of information technology. The group has 18 consultants based in London, eight in Italy and 80 in the US.

In the year to February it had a gross professional fee income of £13.3m. "It is a significant addition in terms of the way we offer services

and also it brings skills that we need more of and that are perceived by our clients to be important," said Mr Guido Castro, lead partner for Peat Marwick's information systems division.

Nolan Norton also brings an in-depth knowledge of the world and experience in training information technology consultants. In the US its clients include 40 per cent of Fortune 100 companies.

The group will operate as part of the Information Services division of Peat Marwick. After merging, the division will employ 1400 professionals worldwide with 200 in the UK. Last year Peat Marwick had a management consultancy fee income of £22.5m in the UK.

For Nolan Norton, the merger gives the opportunity to sell its skills using Peat Marwick's network of offices in 110 countries.

Jobs shed by Cambridge Electronic

By Philip Coggan

CAMBRIDGE Electronic Industries (CEI), the group floated off from Philips in 1981, has shed 300 jobs in a rationalisation programme. The news was announced with the group's preliminary results which revealed full year pre-tax profits down from £10.3m to £10.1m.

CEI, which is involved particularly in printed circuit boards and in electronic components, blamed the job losses on difficult market conditions.

Most employees laid-off were middle managers in supervisory roles, it said, but some younger managers - around 35 so far - will be brought in to prepare the group for any upturn in the market.

CEI employs around 4,500 people in the UK and 4,800 worldwide.



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January dip in output blamed on cold weather

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

BRITAIN'S manufacturing output dipped sharply in January, but government statisticians blamed the fall on the cold weather and said that the underlying trend was still upwards.

The Central Statistical Office (CSO) said that its index of manufacturing production fell by 2.2 per cent in January. For the latest three months taken together output was 1/2 per cent higher than in the previous three months and 2 per cent above the same period a year earlier.

The CSO's statisticians, however, said that they expected the January figure to turn out to be an aberration and for manufacturing production to have resumed its rise in February. They estimate that the underlying growth rate remains around the annual 3 per cent seen since the spring of 1986.

Mr Nigel Lawson, the Chancellor of the Exchequer, echoed that view in yesterday's budget when he predicted that buoyant exports would give a sizeable boost to manufacturing output this year.

Around two-thirds of the drop in production during January was accounted for by a downturn in three industries - metal manufacturing; other minerals products, typically those used for construction; and chemicals.

The statisticians said that all three would have been affected by the difficulties for workers in getting to work caused by the freezing weather and snow, while many building materials plants had open-air operations. The chemicals industry suffered a sharp decline in exports, which may in part be attributable to transport difficulties.

Overall industrial production rose fractionally in January as North Sea oil output recovered from the depressed level of December and the cold weather boosted consumption. In the three months to January, however, industrial output was around 1/2 per cent lower than in the previous three months.

The index of manufacturing production stood at 103.9 (1980=100) in January against 106.3 in December, while that for the production industries was at 109.8 compared to 109.4.

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GOVERNMENT BORROWING ONLY £100M OVER 11 MONTHS

Finances yet again in surplus

BY JANET BUSH

THE GOVERNMENT'S finances were yet again in surplus in February, leaving borrowing at almost nil after 11 months of the current financial year.

Yesterday's figures were released only before Mr Nigel Lawson, the Chancellor of the Exchequer, stood up to deliver his budget.

Mr Lawson's new target for borrowing in 1987-88 compares with the £7bn projection pencilled into the last version of the Medium Term Financial Strategy.

Yesterday's figures showed that there was a £240m net repayment of government borrowing last month, giving a cumulative borrowing requirement of only £100m over

the first 11 months of the current year.

At the same time last year, the cumulative borrowing requirement was £2.7bn and the full year Public Sector Borrowing Requirement (PSBR) turned out at £3.8bn. Included in February's data was about £420m from the first call on British Airways shares.

The Chancellor yesterday forecast that this year's PSBR would turn out at around £4bn, substantially undershooting his £7bn target.

Treasury officials said that the Chancellor had taken full account of yesterday's PSBR data for February in his forecast for the full-year

outturn and in his overall budget judgement.

They noted that March is traditionally a month of high spending. The borrowing requirement in March this year is expected to be inflated by substantially lower than normal receipts of Petroleum Revenue Tax.

In addition, borrowing will be boosted by a £880m support package for the Rover Car group as forecasted in January's Public Expenditure white paper (policy document).

These factors will, however, be balanced to some extent by the receipt of the first instalment of British Gas debt of £750m, which comes in March.

The effect of a change in the timing of payments by building societies of composite rate tax is not expected to affect the PSBR in March.

These payments are now spread throughout the year, rather than being bunched in to the last quarter of the year, a change which to some extent depressed tax receipts in January and February.

The treasury said Inland Revenue receipts in the first 11 months of the current year were £1.8bn, or 3/4 per cent higher than a year earlier, while Customs and Excise receipts were £3.5bn, or 10/8 per cent higher.

Treasury lifts Civil Service wage offers

BY DAVID BRINDLE, LABOUR CORRESPONDENT

THE TREASURY yesterday made improved pay offers to most civil servants in the hope of averting the threat of selective strikes from the start of next month.

The main feature of the offers is a relatively high flat-rate increase for younger lower-paid staff, concentrated in the Department of Health and Social Security and the Employment Department, who would provide the backbone of any strike campaign.

There is also a higher rise for the

Society of Civil and Public Servants (SCPS), the union representing middle-management grades and key senior computer staff who would hold the most disruptive strikes.

Fragmentation of the Civil Service pay negotiations this year makes it difficult to make a general assessment of the worth of the offers. One union, the Institution of Professional Civil Servants, has already reached provisional agreement on a radical long-term deal

linked to greater pay flexibility.

It is clear, however, that the improved offers - likely to be described as final when the Treasury announces them formally - represent an increase of at least 5 per cent in the pay bill.

The main offer, to four unions representing more than 300,000 civil servants, stood previously at 4 per cent, or £4.50 a week, whichever is the greater. This is believed to have been improved to at least £5.75 a week - a rise in excess of 5 per cent

for the lowest administrative assistant grade.

The higher offer to the SCPS is thought to be worth an extra 2 per cent, representing restoration of the union's differentials after they were eroded last year by the technology deal awarded the lower-grade Civil and Public Services Association.

The varying nature of the offers is certain to put the four-union consortium under strain.

Teachers reject call for half-day strike over imposed deal

BY HELEN HAGUE, LABOUR STAFF

MEMBERS OF the third-largest teachers' union in England and Wales have rejected their leaders' call for a half-day strike in protest at government moves to impose a pay and conditions settlement and abolish direct pay bargaining.

The Assistant Masters and Mistresses Association announced yesterday that its members in state schools had rejected strike action by 50.3 per cent to 42.1 per cent.

The union's 75-member executive had recommended national strike action for the first time in its history. During the previous two years of the pay dispute, the union had taken only limited disruptive sanctions.

The two main teaching unions, the National Union of Teachers and the National Association of Schoolmasters/Union of Women Teachers have already embarked on a series of half-day protest strikes and are expected to announce further selective action today.

Welcoming the AMMA vote as a "sensible decision", Mr Kenneth Baker, the Education Secretary, seized on the opportunity to urge leaders of the two largest teaching unions to "rethink their tactics" and

"not take it out on the children".

The AMMA ballot attracted a 72.6 turnout, with 35,611 members voting against strike action and 26,633 for. Announcing the result, Mr Frank Groceries, the union's president, said it did not mean that members accepted the Government's removal of their negotiating rights.

"It shows that a majority reject industrial action as the most effective way to register protest. Children are put in the crossfire, public opinion and parental support are alienated, politicians capitalise from the resulting chaos."

However, he warned that even teachers opposed to industrial action could be tempted to operate a strict work-to-rule unless Mr Baker publishes plans for new negotiating machinery as soon as possible.

"Teachers who react in that way to the Government's stance will be working to the very rule Mr Baker has himself imposed," said Mr Groceries.

In the wake of the ballot rebuff, AMMA is to launch a £50,000 press advertising campaign to encourage parents to support teachers' opposition to Mr Baker's package.

Shortage of staff in electronics 'growing'

By Terry Dodsworth

THE SHORTAGE of skilled staff in the UK electronics industry is growing worse, according to a survey which also suggests that employment in the sector is expanding.

The survey, commissioned by Cussons Exhibitions, the organisers of the electronics exhibitions Interexpoc, and Electronic Production magazine, says that only 10 per cent of the 454 companies which took part feel that the recruitment situation in the industry is improving. More than a third believe it has become more difficult.

Particular difficulties exist in recruiting design and production engineers, and it is hard to find test engineers and skilled operators. Only semi-skilled staff are easy to recruit, it says.

To cope with the skills shortage, almost half of the companies surveyed have increased their in-house training. In part, they appear to be gearing up for expansion: about 45 per cent of the companies sampled said that they should be able to offer more jobs over the next year, largely because of an expected upturn in sales and orders.

Logica, a British computer company, has been put in charge of a £500,000 contract from the European Space Agency (ESA) to work out software techniques related to a proposed manned space station.

The contract, to be shared by Logica and a group of other European companies, concerns progress required for the operation of Columbus, a £1.3bn orbiting laboratory which ESA plans for the mid 1990s.

Logica's space and defence systems division will be responsible for about £300,000 worth of work under the contract, with Messerschmitt-Bölkow-Blom of West Germany, CRI of Denmark and Sweden's Saab sharing in the studies.

Logica says that, with the new contract, it is responsible for about £1m worth of work related to the Columbus development. The studies concern the software needed to run computerised equipment proposed for the laboratory, together with data processing techniques needed for radio transmissions to and from Earth.

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Guinness shareholder group calls meeting

A GROUP of Guinness shareholders has called a meeting for March 24. The group says that although much has been done by the drinks company's new management, there remain matters to be clarified and resolved.

The meeting will take place at the Grosvenor Hotel, in the City of London. It has been called by Mr Irving Scott and six other shareholders after the formation of the Guinness Shareholders' Association in London on March 12.

Mr Scott had previously sought support for an extraordinary general meeting. The group said the formation of an association would help prevent events similar to the controversial share support operation mounted in last year's bid for Distillers, the Scotch whisky group recurring in future.

The group said that Guinness was aware of the meeting, but had not indicated whether it would be represented by an official observer.

ALLGATIONS over share buying in to helicopter company Westland, before last year's deal with the US Sikorsky group are not to be investigated. The Government rejected a call for an inquiry by Mr Tim Dalyell, the Labour MP. It has been claimed that groups backing the deal had co-operated to buy shares beforehand, and Mr Dalyell asked trade and industry ministers in a House of Commons written question to appoint inspectors "to examine allegations of a concert party" in 1985-86.

Mr Michael Howard, Trade Minister, replied that the Government last year decided not to appoint inspectors to investigate membership of Westland. "No new information has become available since that time which would necessitate a review of that decision," he said.

CONNAUGHT Rooms, one of London's best-known banqueting and conference complexes, is being sold for £2.8m to Friendly Hotels by Scotts Restaurants.

FIAT has raised its car prices in the UK by an average of 3.7 per cent. But there will be no change in the price of the Fiat 126, Britain's least-expensive new car at £2,431.

The Polish-built Fiat 126 last went up in price in March last year. Other Fiat car prices were last increased six months ago by an average of 4.5 per cent.

UNOFFICIAL stoppages in the coal industry - known as "rag outs" - are running at two thirds the rate of before the 1984 miners' strike, and 80 per cent occur in the Yorkshire coalfield, Sir Robert Haslam, British Coal chairman, said.

As a result of these actions 1m tonnes of output had been lost. Since Christmas alone, there had been six stoppages in protest against colliery visits by members of Parliament.

TRUSTHOUSE Forte, the hotels and catering group, is to introduce a range of English wines at its 230 UK hotels.

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What the sages advise on career directions

BY MICHAEL DIXON

"I'VE REACHED a crossroads in my career, and don't know which direction to take. Can you help?"

The reader who sent in that question last week is far from alone. To judge by the frequency with which such requests reach the Jobs column, a good many of you periodically find yourselves plumb disorientated in mid-working-life.

The sad fact is that in the circumstances there is little useful aid I can give. I might be able to do something if the need was for information on a particular kind of job or some similarly specific topic. But guidance on a whole career is leagues beyond my province.

Of course, I'm not proud of my helplessness in the matter. So having been reminded of it yet again, I have tried to find out what established authorities have to say about promising career directions. It turns out that some of them, at least, have definite advice to offer.

Take, for example, John Babson's *Life Goals*. His suggestion, stated with every appearance of certainty in the *Terre Haute Express* of Indiana in 1951, was: "Go west, young man!"

While that is no doubt all very well as far as it goes, however, it is not of much use to the sender of the latest request for aid who happens to be a woman in her mid-30s.

In her particular case, therefore, a better adviser might be Benjamin Disraeli, later Earl of Beaconsfield. What he said in his novel *Tancred* was: "The East is a career." And although that conflicts somewhat with the line recommended by Mr Babson, it does not necessarily mean the Earl was wrong on the question.

For instance, his view is supported by the accompanying table. It is compiled from a report published this morning by Intenson Management Consultants on a survey made last autumn of the pay and perks of big companies' expatriate staff.

While most were British, I am told that fairly comparable conditions are enjoyed in the same countries by similarly ranked workers from other European nations and America.

Besides covering only 16 overseas countries, my table refers to just a single rank of staff. Anyone wanting more information should contact Intenson's Nigel Harris at 197 Knightsbridge, London SW7 1RN; telephone 01-584 6171, telex 816533 Kelson G.

The rank the figures refer to is the one which would typically carry a gross salary of £25,000 in the United Kingdom. Assuming that the person concerned is married with two dependent children, tax and so on would reduce that sum to a net pay of

Country of residence	Net pay £	Buying power £	Accommodation		% of expatriate executives in each country whose perks included:		% of expatriate executives in each country whose perks included:		% of expatriate executives in each country whose perks included:	
			Free	Aided	Utilities	Domestic staff	Club fees	Help with education	% of expatriate executives in each country whose perks included:	
UK	17,690	17,690	n/a	n/a	n/a	n/a	n/a	n/a	% of expatriate executives in each country whose perks included:	
China*	25,864	49,331	100	—	100	60	—	100	% of expatriate executives in each country whose perks included:	
Singapore	37,757	39,330	72	28	64	17	83	98	% of expatriate executives in each country whose perks included:	
U.A. Emirates	42,036	37,101	85	15	70	13	46	100	% of expatriate executives in each country whose perks included:	
Malaysia	32,196	36,964	64	36	36	61	12	79	% of expatriate executives in each country whose perks included:	
Bahrain	41,266	36,690	100	—	70	57	22	54	% of expatriate executives in each country whose perks included:	
Thailand	29,638	35,623	82	18	41	55	18	73	% of expatriate executives in each country whose perks included:	
Japan	43,217	34,071	68	32	68	61	18	82	% of expatriate executives in each country whose perks included:	
Saudi Arabia	36,500	34,762	100	—	81	85	10	21	% of expatriate executives in each country whose perks included:	
Indonesia	34,520	33,654	71	29	68	53	17	67	% of expatriate executives in each country whose perks included:	
Hong Kong	34,520	32,869	100	—	84	81	29	74	% of expatriate executives in each country whose perks included:	
Oman	34,973	30,668	100	—	56	78	11	39	% of expatriate executives in each country whose perks included:	
Kenya	22,836	29,017	98	2	86	79	45	67	% of expatriate executives in each country whose perks included:	
Brazil	22,534	28,885	44	56	24	60	—	66	% of expatriate executives in each country whose perks included:	
Australia	20,871	26,227	46	54	39	55	—	65	% of expatriate executives in each country whose perks included:	
U.S. New York	20,810	25,548	51	49	42	33	4	57	% of expatriate executives in each country whose perks included:	
South Africa	17,416	25,499	50	50	27	77	—	45	% of expatriate executives in each country whose perks included:	

* Very small sample

£17,690 which of course would also be the UK "buying power" — as is shown at the top of the table.

Its subsequent lines indicate the pay and perks prevailing among people of the same rank working at expatriates in the other countries.

First comes their average net pay in sterling at the exchange rates of October 1 1986, followed by their average buying power at the local prices of the time. Then we see what percentage of the expatriates also re-

ceived each of a range of hand-some fringe benefits.

It is quite clear that the Brits who took the eastward direction do far better than those who went west.

Even so, Disraeli was not necessarily right in calling the east a "career." For a career is surely something entailing not only rich rewards in any particular job, but also advancement — on which Psalm 75 says: "promotion cometh neither from the east, nor from the west; nor yet from the south."

And while that still leaves the north open as a possibility, having come from that way myself, I wouldn't bank on it.

Bermuda

IT IS to be hoped that those cautionary words will be borne in mind by any readers tempted by the jobs being offered by recruiter Trevor James on behalf of companies he may not name.

Accordingly, like the other headhunter to be mentioned

later, he promises to abide by any applicant's request not to be identified to the employer at this stage.

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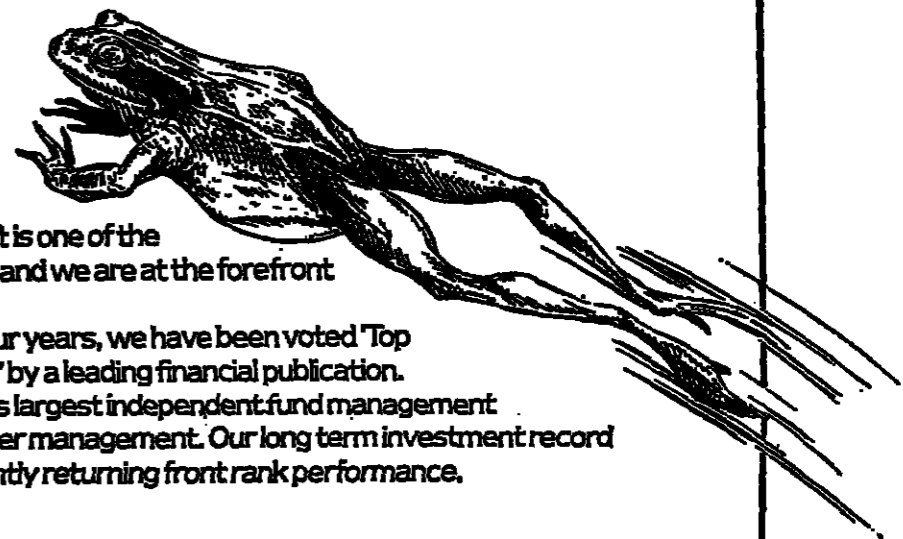
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You will have an active role in the market, using the house investment book to trade in UK equities, futures and options, normally over several weeks or months.

To be a candidate you should be aged 23-30 and have at least 2 years' experience of managing high performance funds, which could be either high growth unit trusts or aggressively managed pension funds. You

should have a strong entrepreneurial spirit and good communications and interpersonal skills.

The company offers a fully competitive compensation package, including profit-related bonus, mortgage subsidy, non-contributory pension and other attractive benefits. There are exceptional promotion prospects.

To apply please telephone John Sears and Associates, Executive Recruitment Consultants on 01-629 3532 or write with CV to Cavendish Court, 11/15 Wigmore Street, London W1H 9LB.

John Sears
and Associates

A MEMBER OF THE S&S GROUP

SALES PERSON

Required for International Communication Company W1. Graduate with good degree from any discipline, keenness to learn about financial markets, good telephone manner and appearance. 23-25 years, salary negotiable a.s.e.

Phone Isabel 01-387 9913
or write to: CATCH 22 EMPLOYMENT AGENCY LTD.,
390 Euston Road, London NW1 3SL.

Unit Trusts Sales Manager

Midlands & N. West — London based
£50,000 potential

Our client is a major independent investment group, whose funds are invariably amongst the sector leaders and consequently enjoys particularly strong support from the more sophisticated professional adviser.

They will be providing unique backing in the form of highly efficient technology based information systems. You will, therefore, be able to provide your clients with a service second to none, whilst making it possible for you to operate out of the London Head Office with continuous access to your fund managers.

Between 25 and 40, you will ideally have an investment background acquired within a stockbroker or another unit trust group, although experience of selling unit linked products to professional intermediaries would be acceptable.

The comprehensive benefits package includes a high basic salary, an attractively designed bonus scheme, non contributory pension, PHI, family BUPA and choice of quality car.

To apply in the strictest confidence, please write or telephone Robin Douglas quoting reference 5013.

Lloyd
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International
Search and Selection

160 New Bond Street, London W1Y 0HR
Telephone 01-499 7761



FOREIGN EXCHANGE DEALER

Due to expansion of the Foreign Exchange dealing activity Baring Brothers & Co., Limited is seeking a dealer to join its existing team to expand and develop the forward exchange trading of the bank within the interbank market.

Suitable candidates are likely to be aged between 22-30 years and have had a minimum of 2 years experience of forward exchange within an active dealing environment. Some experience of spot dealing would be an advantage. Salary will be negotiable according to age and experience and other benefits including mortgage subsidy, non-contributory pension scheme and B.U.F.A. membership.

Applicants should write, enclosing a curriculum vitae to:

Miss E Williams,
Baring Brothers & Co., Limited,
8 Bishopsgate, London EC2N 4AE.

Assistant Company Secretary

Bovis Construction Limited, one of the UK's largest building contractors, is offering a challenging career as an Assistant Company Secretary.

Working closely with the Company Secretary you will be mainly concerned with commercial and contracting matters and negotiations. Previous experience of the construction industry would therefore be an advantage and you should be a Chartered Secretary or Solicitor.

For the person we appoint, we are prepared to negotiate a salary which reflects the importance we attach to this position. Valuable additions will include a company car, and pension with life cover. We are an Equal Opportunities Employer.

If you would like to work in a stimulating environment, which offers job satisfaction and good prospects in our flourishing company, write with personal and career details to:

Brian Robinson, Personnel Manager,
Bovis Construction Limited,
Bovis House, Northolt Road,
Harrow, Middlesex HA2 0ER.
Telephone: 01-422 3488.



Bovis
Bovis Construction Limited

DERBYSHIRE ENTERPRISE BOARD LIMITED

SENIOR INVESTMENT EXECUTIVE

You will be experienced in Venture Capital/Merchant Banking to lead a balanced investment team taking projects from enquiry to recommendation to Chief Executive and Board for decision.

TWO INVESTMENT EXECUTIVES

Probably with a background in the manufacturing industry. You must be fully conversant with company finance in addition to specialising in production or marketing.

The Derbyshire Enterprise Board Limited has been formed by Derbyshire County Council to promote investment in local industry.

Application forms and further details from the:

Chief Executive, Derbyshire Enterprise Board Limited,

c/o County Offices, Matlock, Derbyshire, DE4 3AG.

Tel: Matlock (0429) 3411 ext 6023

Closing date — 3 April 1987

All applicants will receive equal treatment regardless of their marital status, sexual orientation, race, creed, colour, ethnic or national origin, or disability.

Euromoney Publications

seeks an individual with at least a year's experience of capital market transactions to join a lively team of journalists and staff reporter on a new weekly newspaper. This is a unique opportunity for a self-starter to excel journalism at the sharp end.

Write with curriculum vitae to:

Michael Taylor

EUROMONEY PUBLICATIONS PLC

Nestor House, Playhouse Yard,
London EC4A 3EX

PER

Britain's Largest Executive Recruitment Consultancy

REGIONAL GENERAL MANAGER

HARROGATE

Yorkshire Regional Health Authority provides strategic management for health services to 3.6 million people delivered through 17 District Health Authorities. The Region employs 70,000 staff and has an annual revenue spend of £783m.

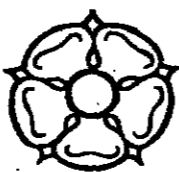
Major management changes have been introduced in the last two years at both the Regional Health Authority and in each of its Districts. Our Regional General Manager has made considerable progress in giving a new impetus and direction to the management of the service. He is now returning to his former employer in a top management position, and we look to recruit a successor who will build on the excellent foundation he has laid.

Our prime aim is the improvement of health and health care for people in the Region. We are looking for strong and imaginative leadership of a management team in which the emphasis is on individual accountability for the efficient use of resources. The General Manager is responsible for

putting into effect the Authority's decisions and policies, and improving management performance in meeting objectives. Candidates should be able to demonstrate considerable success at senior level in a major enterprise, and be capable of commanding the support and respect of Authority Chairmen, Members, clinicians and other professionals within the NHS.

The salary for the post is £37,000, although a performance related pay scheme is in operation, providing a potential maximum of over £44,000. A higher salary may be available for an exceptional candidate.

Please write in strictest confidence, giving sufficient brief details to justify a preliminary interview, to the Chairman:
Bryan Askew,
The Old Brewery,
Baldreth,
Leeds LS2 9SB.



Yorkshire Regional Health Authority

OPERATIONS DIRECTOR

Firm of stockbrokers requires Operations Director to manage and improve the securities administration and finance function of the Company. Applicants must have a commercial degree, chartered accountants qualification, an "A" thorough knowledge of stockbroking and international settlements. Applicants must be highly adaptable and able to transfer at short notice to deal with overseas expansion of the company. Ability to speak Dutch would be an advantage.

Normal leave benefits and suitable remuneration package offered. Detailed CV will be treated in confidence.

Please forward to Box A0465
Financial Times, Broken House
10, Cannon Street, EC4A 3DF.
Closing date for applications
Monday 6th April.

SPOT

£15,000 to £50,000

We are recruiting specialists in
Interbank Foreign Exchange



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22A College Hill, London EC4A
Tel: 01-488 8546

Investment Trust Sales

We wish to recruit an Executive with several years experience of Investment Trust sales to join our established team, servicing institutional clients. This is an excellent opportunity for applicants with a proven track record in this field to further their career.

We are offering an attractive salary, which is negotiable according to experience, and a comprehensive benefit package. Career prospects are excellent.

Please write enclosing full personal and career details to:

Gareth Hughes, Personnel Department,
Kleinwort Benson Group,
PO Box 191, 10 Fenchurch Street, London, EC3M 3LB.

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As a member of a small and successful team at our hectic Lymington branch you will be actively involved in managing portfolios for a diverse range of private clients.

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Lymington, Hants

most respected names in banking. Previous portfolio management experience is essential together with a lively and personable personality.

Salary will reflect ability and experience. Excellent benefits are those expected of a major banking group and will include generous assistance with relocation expenses where appropriate.

Please write in the first instance with full personal and career details to:
Mrs. Carolyn J. Bland, Manager, Personnel,
Samuel Montagu & Co. Ltd.,
114 Old Broad Street, London EC2P 2HY.



GREENWELL MONTAGU STOCKBROKERS

A Position Of Strength

UK Convertibles Sales

Highly attractive package

One of the leading stockbroking firms in the UK, our client's first-class reputation extends throughout the securities market, particularly in the area of equity research.

The firm's convertibles team is well-established and commands a significant percentage of the sector. To consolidate their position, they now seek an additional salesman to join the team.

Whilst specialist sales experience in convertibles will be an obvious asset, the overriding requirements are marketing ability and a thorough knowledge of the sector. Individuals looking to switch from convertibles asset management into sales, or those with a capital markets sales background could also prove to be suitably qualified.

For the right individual, the reward will be excellent, both in terms of remuneration and career development.

In the first instance, please contact Anna Robson or Sally Poppleton at the Securities Division, 39-41 Parker Street, London WC2B 5LH, telephone 01-404 5751. All replies will be treated in strictest confidence.



Michael Page City

International Recruitment Consultants - London Brussels New York Paris Sydney
A member of Addison Consultancy Group PLC

BANK OF WALES

A member of Bank of Scotland Group

As a result of significant expansion plans the bank now has additional vacancies in South Wales for

APPOINTED OFFICERS

The Bank is seeking to recruit a number of staff, ages 24-28, who have personal and commercial lending experience - ideally in a Banking environment. These posts will only be offered to people who are intent on developing a career by hard work and using their enterprise to take advantage of the opportunities arising in a banking environment where expansion is taking place.

A competitive remuneration package will be available for the right applicants.

Please write, giving full details of career and interests to:
Mr. P. W. James, Assistant General Manager at the address below.



Head Office, Bank of Wales PLC,
114-116 St. Mary Street, Cardiff, CF1 1XY

FORWARDS TRADER LONDON

Our client is a well established international bank with an excellent reputation. To complement the existing, active dealing team they require an experienced and highly capable forwards trader.

The appointee will be encouraged to, expand the existing forwards book and experience in a major currency or Scandi is required.

Applicants should have at least three years forwards trading experience with a medium to large bank and should possess a broad-based and in depth knowledge of that market.

Salary to £35,000 plus benefits.

Roger Parker Organisation Bunge House, St Mary Ave,
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01-929 1212

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32 Seville Row, London W1. Tel: 01-734 3879 (24 hours)

Connaught

National Sales Manager — Pensions —

Merchant Bank
City based

£30,000 basic
+ profit share

Our client is the asset management subsidiary of one of the most prestigious names in merchant banking.

To optimise the market potential created by changes in legislation affecting pensions, they are forming a new division specifically targeting the smaller group schemes sector.

Having built your own sales team, you will lead them in developing relationships with Professional intermediaries; particularly Consulting Actuaries, Benefit Consultants, Solicitors and Accountants, whose income derives from fees rather than commission.

Ideally you will be aged 30-35 with a good understanding of investments, especially unit trusts. You must be able to prove a successful track record as a Pensions Sales Specialist.

As you might expect the comprehensive benefits package includes a generous mortgage subsidy, non contributory pension, BUPA and choice of quality car.

To apply in the strictest of confidence please telephone or write quoting reference RD 5005.

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160 New Bond Street, London W1Y 0HR
Telephone 01-499 7761

INVESTMENT

We are PK English Trust, a new and rapidly growing merchant bank, operating at the heart of London's financial sector.

Our recent acquisition by PKbanken, a major Swedish bank, has allowed us to greatly expand our investment management activities.

We are now looking for a professional with funds under management who is interested in working within a tightly knit investment environment. Age is not an issue and we are equally keen on seeing young, career-minded fund managers as those older and more experienced, who are working up to retirement and have an existing client base.

Our approach to remuneration is just as negotiable and we are open to proposals.

If you are interested in an involvement with a progressive, new financial institution, please ring Richard Cox-Johnson on 01-920 9120 or write to him at PK English Trust, 4 Fore Street, London EC2Y 5EH.



MANAGEMENT

SENIOR INVESTMENT ANALYST - EDINBURGH

Wood Mackenzie & Co Ltd, a member of The Stock Exchange and a subsidiary of the Hill Samuel Group, is expanding its research team covering UK and European healthcare companies, with the aim of developing its existing strong business base in the area.

We are seeking a senior analyst based in Edinburgh to lead a group of specialists covering the UK and European health and household companies. Close liaison will be required with Wood Mackenzie's healthcare analysts based in New York and Tokyo.

Candidates should have a proven track record in investment analysis in a broking or fund management organisation. Previous knowledge of the sector, whilst an advantage, is not essential.

Excellent career prospects are offered together with an attractive salary and comprehensive benefits package which includes a mortgage subsidy, profit related bonus and non-contributory pension scheme.

Please apply with full career details to:

Ian McBean, Head of Research, Wood Mackenzie & Co Ltd, Kinross House,
74-77 Queen Street, Edinburgh EH2 4NS.

Wood Mackenzie & Co. Ltd.



Members of The Stock Exchange.
A subsidiary of
Hill Samuel & Co Limited.



Jonathan Wren COMMERCIAL PROPERTY LENDING £negotiable

Further expansion within the UK commercial property lending sector is planned by this substantial British bank. To achieve this the bank wishes to recruit an experienced property financier with a number of years experience in administering appropriate mandates for commercial propositions and syndications of some of these facilities.

Ideally aged between 26 and 32, the successful applicant will work with a small professional team of property specialists and bankers engaged in financing business throughout the UK and generally promoting and developing the comprehensive services the bank has to offer.

AUDITOR £negotiable

A new position has been created by this international bank within its Computer Audit Department. Duties will include on-site reviews of the bank's computer installation, analysis of new and existing computer applications by reviewing system specifications and code for control, as well as creating software to improve efficiency.

A good education and experience gained within a similar institution in the City would be preferred.

For the above positions please contact Richard Meredith.

LONDON BRUSSELS HONG KONG SYDNEY

Jonathan Wren
Recruitment Consultants
No. 1 New Street, (off Bishopsgate), London EC2M 4TP.
Telephone: 01-623 1266. Fax: 01-626 5258.

BOND SALES US \$ STRAIGHTS

Great potential to develop new accounts with a strong relationship base.

This leading Canadian house is widely known as an excellent marketmaker and a leader in Can \$ sales. The Company has already established an extensive network of institutional relationships but is not yet a big player in the US \$ market. It is investing heavily in this area, offering you an outstanding opportunity to generate high level sales. You will operate without territorial restrictions and have the freedom to create other books where you have specialist experience.

To be a candidate you should have experience

of active sales in the US dollar bond markets. Age is not important and it is not essential to have an existing client base. However if you do, you can continue to service it.

Your value to the Company will be rewarded by a substantial salary and bonus package and by exceptional future prospects.

To discuss this opportunity, telephone John Sears and Associates, Executive Recruitment Consultants, on 01-629 3532 or write with CV to Cavendish Court, 11/15 Wigmore Street, London W1H 9LB.

**John Sears
and Associates**

A MEMBER OF THE **SMCL** GROUP

Jonathan Wren

**TREASURER
Thames Valley**

Neg £21,000 + car and benefits

On behalf of our client, a major international consumer finance company, we seek a Treasurer with two years relevant commercial experience. The successful applicant, of graduate calibre, will ideally be a qualified accountant, treasurer or banker. Of utmost importance, however, is a sound understanding of general financial management coupled with excellent communication skills and the ability to negotiate at the highest level.

Reporting directly to a main board director, the appointee will have full responsibility for the management of the company's sterling liabilities of £120M, arranging all funding lines, investigating new borrowing instruments and developing treasury support systems. The Treasurer will also be responsible for financial planning and forecasting.

Benefits are exceptional and include mortgage subsidy, company car, contributory pension, free life assurance and private health care. Relocation expenses are available where necessary. Contact Peter Haynes.

LONDON BRUSSELS HONG KONG SYDNEY

Jonathan Wren

Recruitment Consultants
No.1 New Street, (off Bishopsgate), London EC2M 4TP.
Telephone: 01-623 1266 Fax: 01-626 5258.

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A prestigious and highly profitable Melbourne-based stockbroker with international banking connections requires successful individuals to enhance their sales and research teams; sound experience of Australian stocks an advantage.

Partnership prospects, excellent remuneration package.

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A leading London broker, part of a large financial institution, is looking to expand their European department. Experience in the following areas is required: Market Making, Option Protection, Arbitrage, and related Currency Trading. This is a company that recognises and rewards success.

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01-236 3769

Phillips & Drew Sterling Money Markets Traders

Phillips & Drew Moulds Ltd. is the Group's Primary Dealer in the Gilt Market and enjoys a significant share of the new market. As part of a programme of continuing development, Phillips & Drew Moulds Ltd. is establishing a trading capability in a full range of Sterling Money Market Instruments and will seek a bill-dealing relationship with the Bank of England.

We are now seeking to recruit people with experience in trading and distributing Sterling Money Market Instruments and who are able to make a significant contribution to this exciting, new venture and its future.

Candidates should be of graduate calibre, between the ages of 25-35, and be able to demonstrate a good track record of dealing in the Sterling Money Markets.

We will reward you with an excellent compensation package which includes a performance bonus, mortgage subsidy, pension scheme, free life assurance and free BUPA.

Please send a comprehensive curriculum vitae to Geoff Gray, or call him on 01-628 4444, extension 2155, for further information.

Phillips & Drew,
129 Moorgate, London EC2M 6GP

A MEMBER OF THE UNION BANK OF SWITZERLAND GROUP.

PHILLIPS & DREW

PUBLIC RELATIONS & PUBLICITY MANAGER

c. £30,000 package
Leading International Securities House

Our client is a highly respected International Securities House with worldwide offices and a well regarded image. Due to continuing growth they seek an experienced Financial and Corporate Public Relations/Publicity Manager to establish and run their PR function.

Candidates should ideally be graduates, with a minimum of five years experience in PR, Publicity or Journalism. A thorough understanding of securities and investment banking, good financial press contacts, the ability to communicate at all levels and creativity are essential attributes.

This newly created position will incorporate all aspects of Public Relations. Developing and maintaining close relationships with the press and organising sponsorships are vital responsibilities as well as communicating with employees, clients and the financial community.

For an initial talk in confidence please contact Vicky Mann, 20, Cousin Lane, London EC4R 3TE. Telephone 01-236 7307.

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Capital Markets

An opportunity to become Syndicate Manager
with an influential U.S. Investment Bank.

The firm is an old established New York House whose principal activities in London include trading and distribution of international securities. The Syndicate Manager has responsibility in the firm's participation in underwriting new issues and for origination proposals.

One of your main responsibilities will be to actively maintain relationships with other Houses, to generate and respond to invitations to participate in issues.

To be a candidate you should

have a good working knowledge of the International Capital Markets not necessarily in a syndicate function. The bank offers an attractive, flexibly arranged compensation package and an attractive performance-related bonus scheme.

To apply, please telephone John Sears and Associates, Executive Recruitment Consultants, on 01-629 3532 or alternatively write to us at Cavendish Court, 11/15 Wigmore Street, London W1H 9LB.

**John Sears
and Associates**

A MEMBER OF THE **SMCL** GROUP

DEUTSCHE MARK BOND TRADER

The London branch of Norddeutsche Landesbank is seeking a Deutsche Mark bond trader to augment its existing capital markets team.

In his/her early to mid-twenties and with 1-2 years experience in the DM bond market the successful candidate will quickly be expected to become a fully integrated member of a small active team and must therefore be highly self-motivated and able to cope with responsibility. A good academic

background is also important and a working knowledge of German would be an advantage.

Remuneration will consist of a competitive salary and the usual bank benefits.

Applications supported by a comprehensive curriculum vitae should be addressed to the Personnel Department, Norddeutsche Landesbank Girozentrale, 20 Ironmonger Lane, London EC2V 8EY.

NORD/LB
NORDEUTSCHE LANDESBANK
GIROZENTRALE

FOREIGN EXCHANGE CONSULTANT / DEALER

THE JOB

The work entails providing professional consultancy/trading services to major international companies and financial institutions in Europe. Consultancy is given at the highest corporate levels in an international environment.

THE QUALIFICATIONS
He/she will have a degree in economics and/or finance or equivalent experience. The candidate will be in his/her late twenties to late thirties and must have gained professional experience in the international currency markets.

EXPERIENCE
The candidate should have worked with a European company/bank for at least two years in an international financial position and he/she must be a self-starting individual.

Please address curriculum vitae to:
FINTECH (UK) LIMITED
14 High Street, Windsor, Berkshire SL4 1LD - 0753 842022

UK EQUITIES CITY

A first class opportunity to consolidate your analytical skills and move into fund management. The Equitable are one of the oldest and best established financial institutions in the UK with total assets exceeding £3 billion and currently 8 unit trusts under management. Current and planned future growth has created the need for an additional analyst, based in the City, to participate in the evaluation of a broad range of UK equity holdings.

The career development prospects are excellent; initially to assist with fund management and thereafter to take responsibility for a meaningful part of the Society's equity portfolio.

Candidates should have a good degree and 1-2 years experience of analysing UK equities.

A competitive salary is offered together with generous fringe benefits and relocation assistance where applicable.

If you would like to be considered please write enclosing a curriculum vitae and details of your current salary to:
T.D. Glover, Personnel Services Manager,
The Equitable Life Assurance Society,
Walton Street, Aylesbury, Bucks HP21 7QM.

The Equitable Life

FLEMINGS

INVESTMENT ANALYST
SMALLER COMPANIES

Robert Fleming Securities, the broking arm of the Flemings investment banking group, wishes to appoint an analyst to join a team which specialises in researching a diverse group of small and medium-sized companies.

Previous experience of research in an institutional investment environment is desirable, but by no means essential. Suitable alternative backgrounds might include corporate finance, accountancy, and direct experience of the smaller business sector. The qualities of the successful candidate will include an ability to assess companies from all aspects and, equally, an ability to communicate views succinctly and effectively to institutional investors.

This post offers an attractive salary plus all the usual banking benefits.

Applicants of either sex should write enclosing their curriculum vitae to:

Frank Smith,
ROBERT FLEMING & CO LIMITED
25 Copthall Avenue, London EC2R 7DR.

OPTIONS & FUTURES TRADING BUSINESS DEVELOPMENT OPPORTUNITY

Due to continuing expansion of our currency management and treasury services to corporate clients, we are looking for professionals with in-depth experience of devising and marketing effective risk control strategies using the instruments now available.

This major challenge, with a long established banking and treasury group, requires proven management skills in trading futures and options together with the ability to develop new business opportunities.

A substantial salary is negotiable with an incentive bonus scheme giving significant additional earnings potential from self-generated income growth.

Write with CV to John Penrose at:



MANEX

MANCHESTER EXCHANGE TRUST LTD
Pembroke House, 40 City Road, London, EC1Y 2AX

PROPERTY FINANCE BROKER

Banker/Broker — 30ish with experience of property lending, personable and industrious, to join small team. Good salary — excellent benefits — send c.v. to:

Rodney Gamble,
R. M. GAMBLE & CO. LTD.,
Standbrook House, 2-5 Old Bond Street,
London W1X 3TB

Registered Representative

Bank Advisory Department

Lloyds Bank Stockbrokers Ltd, part of the Lloyds Merchant Banking Group, started operating on 27 October 1986 and its business is growing fast.

The Bank Advisory Department services the Lloyds Bank branch network. It's brief is to respond to telephone enquiries and to provide a professional portfolio management service for branch customers.

A Registered Representative is required with experience of private client business gained with a stockbroking firm or similar investment institution.

You will be joining a small hard working team with good prospects for the future. A competitive salary will be offered together with excellent banking benefits.



**Lloyds
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Stockbrokers**

Write with full CV to:
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Lloyds Merchant Bank Ltd
40-66 Queen Victoria Street
London EC4P 4EL

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مكازم التحصيل

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N. AM. EQUITY SALES £20,000+
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Tel: 01-920 9512

A SUCCESSFUL CAREER ALREADY BEHIND YOU? NEW OPPORTUNITIES BASED IN WINDSOR

If you are aged under 55, with integrity, dedication, self-assurance and an entrepreneurial flair, you could have another equally successful career ahead of you.

Hill Samuel is one of Britain's most respected financial institutions. Personal Financial Services is a growing business sector with more and more people requiring advice and guidance on how best to successfully manage their money.

Hence we have openings for mature, responsible individuals to join the Hill Samuel Investment Services team of advisers. Based at our new divisional offices in Windsor.

Whilst a knowledge of financial matters would be an asset, we are prepared to give you thorough and comprehensive training as well as providing excellent support services and opportunities to earn a very substantial income.

To launch your second career talk to Hill Samuel. Write enclosing C.V. or call Peter Storer at Hill Samuel Investment Services Limited, 50 Pall Mall, London SW1Y 5JQ. Telephone 01 629 7174.

HILL SAMUEL INVESTMENT SERVICES

FOWLER SUTTON STOCKBROKERS SENIOR DEALER

Fowler Sutton, major provincial stockbrokers require a Senior Dealer to head the dealing team in Hull.

Applicants should either be experienced Stock Exchange members or registered representatives possessing detailed knowledge of dealing and settlement procedures.

Salary and benefits package negotiable.
Please write with full c.v. to:-
David Porter, Administration Director,
Fowler Sutton & Co. Limited, High Street,
Hull HU1 1NZ, N. Humberside. Tel: 0482 25750.

EUROPEAN GENERAL MANAGER

SALARY - CIRCA US\$60,000 PLUS INCENTIVES

American Manufacturer requires an EXPERIENCED GENERAL MANAGER for its European Subsidiary which assembles and distributes mechanical products throughout Europe, the Middle East and Africa.

Sales are currently running at US\$3m and the successful candidate will have the necessary qualification and initiative to develop future growth through distributors. He/she will also be adept in controlling international currency transactions.

A working knowledge of European languages is essential together with an understanding of the American Standards of Management upon which his/her performance and compensation will be judged.

If you wish to be considered please send your resume in strictest confidence to Box A0457
Financial Times, 10 Cannon Street, London EC4P 4BY

Leading International Bank

PRIVATE BANKER MONACO

We are looking for an experienced private banker to develop his/her clientele and to manage our existing accounts as part of our internationally-established team. Candidates should have at least five years of experience of marketing financial products and should be familiar with international capital markets.

Perfect command of the English language is necessary. Knowledge of French would be useful but is not essential. The ideal candidate would be between 35 and 50 years old. We offer a fully competitive salary for this very challenging position in a dynamic and fast-growing corporation.

Please forward your c.v. in confidence to:
Box A0487, Financial Times
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The Editor will interview selected applicants in London in early April. Applications, with a full CV, should be sent to:

**The Editor
The South China Morning Post
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Vocational Training Council HONG KONG

The Banking Training Centre of Hong Kong

Centre Manager

Vocational Training Council
The Vocational Training Council (VTC), a statutory body responsible for Government assisted manpower training in Hong Kong, will establish a Banking Training Centre of Hong Kong by the end of 1987. The main functions of the Centre include the development and implementation of work-based courses with narrowly defined objectives to cater for the short-term practical training needs of various categories of banking personnel. The Centre will have a Centre Manager, professional, administrative and supporting staff. Applications are now invited for the post of Centre Manager for the administration and operation of the Centre.

Qualifications
Applicants should possess a degree and/or professional qualification in banking. They should have not less than 10 years post-qualification experience in banking part of which should be in managing practical banking training. Prior experience in setting up a banking training centre would be an advantage. The successful candidate will be expected to assume duty in mid 1987.

Conditions
The post will attract a monthly salary of HK\$24,785-HK\$28,135 (G1 - HK\$11,75 as at 27.1.87 but this is subject to fluctuation) depending on qualifications and experience. The appointee will be offered an initial contract of four years, inclusive of leave, plus 25% terminal gratuity upon satisfactory completion of the agreement. Thereafter, the appointee may be offered either contract or superannuable term at the discretion of the Vocational Training Council. Fringe benefits include leave and passages, housing, medical and dental treatments, children's education allowances and school passages.

Application
Application forms are obtainable personally or by post from the Hong Kong Government Office, 6 Grafton Street, London W1X 3LA. The completed application forms should then be returned direct to the Executive Director, Vocational Training Council, 15/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong to reach him on or before 31 March 1987.

TECHNOLOGY

No brake on the pace of change

Peter Marsh explains how automation offered Ferodo of the UK a chance of survival



David Vine: one big change rather than many small ones.

FIVE YEARS ago, the future looked uncertain for Mr David Vine, manager in charge of UK brake-pad production at Ferodo, one of the world's biggest friction-materials companies.

Ferodo, a subsidiary of Turner and Newall, the engineering group, was accumulating large losses because of the company's inability to turn out products at a cost and to a quality that the market wanted.

"We were in a fight to survive," Mr Vine recalls. "To give ourselves a future we decided we had to make one big change, rather than a lot of small ones."

The change — of relevance to other manufacturing concerns struggling to increase product standards while reducing costs — was a £2.5m modernisation of Ferodo's main UK factory at Chapel-en-le-Frith, near Manchester.

A group of seven engineers under Mr Vine set about re-organising the old, heavily labour-intensive method of making brake pads with an automated process. The result has been both an improvement in quality and a huge decrease in manufacturing costs, although Mr Vine is coy about saying exactly how much has been saved.

Since 1982, the factory's output has increased by 35 per cent, while the number of employees has dropped by about

700 to 1,500. Mr Vine says that, in spite of redundancies, the company's plans met little opposition because the changes were viewed as essential to recovery.

Thanks to modernisation, Ferodo's UK operations have returned to profit.

The new process is based on 12 computer-controlled manufacturing cells, in which robots shuttle pads in and out of large presses. These machines push mastered quantities of fibre-based material into moulds, out of which come hardened plugs. These are stuck to steel plates to form the finished pad.

Robots in the cells, which can be reprogrammed to make different types of pad, also take care of subsidiary operations, such as putting the products in ovens for baking (to change the chemical state of the material) and presenting the items to cutting tools to remove edges.

The cells operate for 24 hours a day. Each of them requires just four workers: one person in charge of production, one maintenance man and two operators, who load goods in and out.

With the new equipment, output per person is 15-20 per cent higher than with the old system. The company has also benefited from a large reduction in the cost of storing pads in various stages of manufacture around the plant.

Output from the cells is increasing and accounts for two-thirds of the factory's production. According to Ferodo's schedule, the old manufacturing methods, in which the jobs were left to groups of workers on machines scattered around the factory, will be phased out completely by the end of next year.

Ferodo's brake pads, of which the Chapel factory makes about 1m a year, in thousands of varieties, mainly end up in the front-wheel systems of cars made by companies such as Ford, Fiat and Volkswagen.

Other UK components group, Ferodo is the second biggest producer of brake pads, a business worth about £250m a year. Other competitors include West Germany's Jurid, owned by Bendix of the US,

and Valeo of France. Computers in the Chapel system weigh out materials highly accurately, while other sensing mechanisms ensure the fibre stays in the mould for a set length of time. As a result, products are turned out with greater consistency than when done manually where human error was likely.

The new process says Mr Vine, has cut the number of defective items and increased the confidence of customers, which include brake manufacturers such as the UK's Automotive Products and Lucas, and fixed Teves of West Germany.

A further advantage, according to Mr David Carruthers, chairman of Ferodo's European operations and a Turner and Newall director, is that the equipment makes possible products comprising novel mixtures of materials. Exactly what is in the mixtures is a closely guarded secret.

Pads based on cocktails with about eight ingredients, including fibres and chemical binding agents, require more exact manufacturing techniques than

were possible with the manual routine.

The composition of the cocktails frequently changes to create different types of pad, depending on the car it is designed for and whether specific friction characteristics are needed. This made it essential to have a highly flexible system.

Ferodo has introduced new products partly to reduce the company's use of asbestos, which is widely associated with health problems. A heavy dependence on the substance was one of the reasons behind Turner and Newall's massive cash crisis in 1982, when it had to be rescued by a group of banks.

In the late 1970s, virtually all Ferodo's pads used asbestos, while today the proportion is about half, with substitutes including glass, steel or aramid fibres.

Ferodo's recovery has played a part in the overall reshaping of the parent company. Turner and Newall has, in recent years, reduced unprofitable operations in areas such as building materials and last year registered a profit of £40m on sales of £535m.

By 1983, a year after Mr Vine started work on the design, the group went before the full Turner and Newall board,



which approved the scheme. The engineers would have liked a new factory to house the new system — but that was out of the question.

Instead, they cleared a site in the centre of the cluttered, 80-year-old factory at Chapel. Of the £2.5m the project has cost, about 40 per cent represents systems engineering by the company, with the rest taken up in the purchase of equipment, such as robots and presses. Such is the competitive nature of the brakes business that Ferodo refuses to reveal its suppliers, and has hidden these details from visitors by removing name plates from the machinery.

Work scheduled for the next 18 months includes a plan to install more equipment to automate pad production after the basic moulding and baking process. These steps involve finishing processes such as painting, marking and packing in boxes.

Ferodo has already produced a pilot system of this final manufacturing stage. It is due to be introduced at a cost of a further £2.5m.

The multicolour phone call

FINNISH company Vistacom Industries is launching a videophone, which allows a telephone conversation to be accompanied by full colour television images of the speakers.

The system will operate over any suitable digital link, but is aimed mainly at the forthcoming ISDN (integrated services digital network) services, where a pair of 64,000 bit per second (64 kb/s) channels will give subscribers data and images over the telephone lines. Major countries will introduce ISDN in the late 1980s.

To squeeze the high bit rate of a colour TV image into a 64 kb/s channel, code (code-decode) circuits are used. In normal TV, the picture content of each frame (50 every second) is sent in its entirety. But in a videophone "mug shot" there is little change between one frame and the next and the code transmits

only the changes, reducing the bit rate to 1/1500th of normal. This means rapid movements are blurred. The desk-top unit, housing handset, keypad, camera and small colour screen, weighs 12kg (26lb).

Joint effort on subsea vehicle

UK COMPANIES Mobil North Sea and Ferranti Offshore Systems are undertaking a joint project to design a new subsea production system that can be installed and maintained using a remotely operated vehicle (ROV). The vehicle would be controlled from a support ship, avoiding the need for divers.

The system will be designed for operation in water depths up to 1,000 metres (3,300ft) and will be suitable for oil and gas production using water or gas injection. It is expected that bids will be invited in the summer for fabrication of a prototype.

Designed for speed

GENERAL Electric of the US is designing custom integrated circuit "chips" for its products in three days, using a "silicon compiler" computer aided design tool developed at its Schenectady, New York laboratories.

GE claims that VLSI (very large scale integrated) chips, with up to 35,000 transistors, would have taken six months to complete with the design tools commercially available.

'The fastest bit'

TOSHIBA CORPORATION in Japan reports the development of a one megabit static random access memory chip (SRAM) in which a single stored data item (bit) can be read in 25 billionths of a second.

The company claims this to be the fastest time yet achieved in the technology it has used, namely complementary metal oxide silicon

(CMOS). Toshiba plans to commercialise the product, which integrates 6.4m electronic components on a fingernail-sized chip, in the autumn of 1988.

Fingertip control of the screen...

THE UK membrane switch specialist, RH Technical Industries, is offering a touch-screen overlay panel for use with computers or terminals at a price of only £100 in quantities of 100.

The panel is made from polymer materials using a fine matrix of gold conductors thin enough to allow more than 60 per cent of the light through. Attached to any cathode ray tube face or electroluminescent display screen, the unit provides 100 or more independent switching zones of about four square millimetres.

Finger pressure on any cross point switch will send a locational signal to the computer system, allowing the

user to select, for example, instructions displayed on the screen.

The company claims a life exceeding one million operations per switch. The maximum available size of the unit is 300 x 400mm.

...or the graphics

IN ITALY, Honeywell Information Systems Italia has developed a dot matrix printer which can also perform as a graphics plotter at the touch of a button.

Aimed at the personal computer CAD (computer aided design) market, the machine has the usual text printing facilities but has additional circuits that give it plotting abilities comparable with the Hewlett Packard 7475A machine.

The change between printing and plotting modes can be effected without switching off. Basic plotting data, like paper size and line thickness, are programmable.

Truck safety in reverse

OGDEN ELECTRONICS, a York-based, UK company, has developed an electronic safety control system for earth-moving and construction industry vehicles.

It consists of a rear-mounted short-range radar scanner, linked through a central control unit to the vehicle's braking system and gearbox. When an obstruction is detected within a set area to the rear of the reversing vehicle, the system automatically stops the truck.

The system also prevents the vehicle reversing with a raised skip, only allowing limited forward movement when the skip is lowered.

Key to fleet's fuel supply

TRI-SCAN, the UK company specialising in fuel management systems, is producing a programmed key that for fleet drivers can be used to obtain access to fuel

supplies from the company pumps it supplies. Special readers on the fuel pumps interrogate the memory chip in the key before any fuel is delivered.

Called Alphakey, the device can store up to 1,000 characters, sufficiently to describe the driver, his vehicle, his fuel drawing rights and authorisation.

Expectations hang-up

ACCORDING to Logica, the UK software systems house that publishes Tariffica, a telecommunications tariff and service monitoring report, devaluation of telecoms in the UK has had little effect on costs to the business user.

Most people, the report suggests, expected prices to drop, particularly with the completion of a series of tariff cuts. But the price index in the UK in 1977 was 100, in West Germany it was 204, in France 122 and in Italy 116.

The UK this year edges up to 105 whereas Germany has

WORTH WATCHING



fallen to 133. The Italian index has risen to 174. The report suggests that perhaps the British should not expect too much by way of lower costs.

CONTACTS: Viscomat Helsinki, Finland, 0102 5011. Mobil: London, 631 7171. General Electric US, 910 287 6333. Toshiba Tokyo, Japan, 4 26 0000. RH Technical Industries: UK, 0822 61707. Honeywell: UK office, 0442 42291. Ogdens UK, 0445 494351. Tri-Scan UK, 0254 672221. Logica: London, 637 9171.

Where developing countries will lose

From the Director, Export Group for the Constructional Industries

Sir,—I read (March 12) about the prospective OECD agreement on concessionality in tied aid with interest. It seems to me however, that it is somewhat misleading.

The proposed change will not cut the cost of mixed credits to Britain (in some cases they will cost more), but will only increase the costs to low interest rate countries like Japan. This will slightly level up the cost of supporting projects by low interest rate countries respectively, but not enough.

The main losers will be the developing countries since the available aid will be concentrated and there will be fewer viable projects, which will adversely affect the industries and workers in the developed

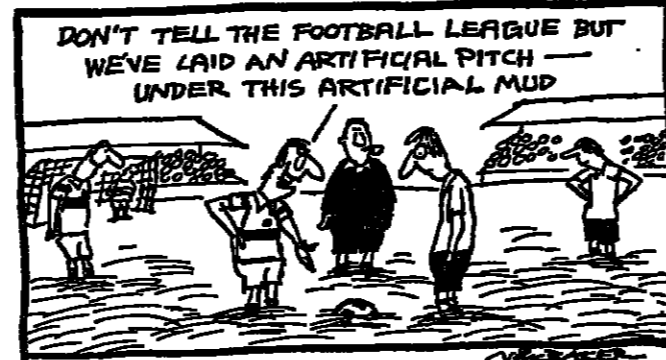
countries for whom there will be less work. There will be no gainers, although a certain amount of intellectual satisfaction may be achieved by the more doctrinaire members of some Governments and the more theoretical inhabitants of the latter being able to calculate upon having a job until retirement date no matter what happens to the economy. Their smugness will not be shaken by the fact that it is clear to most people in the business world that they are wrong.

The Americans who sought to increase concessionality will continue to have the world's largest aid programme and use it to dominate the world's international contracting industry. If the Japanese accept the proposal it will certainly cost them more to achieve the new minimum concessionality, but they will still be able to support

nine times as many projects as the British at lower cost per project, and just because they will have to put more aid into each project they will be even more competitive on the ones they really want.

The original need was that everyone should be put on the same basis by calculating "real" concessionality (that is, by using the difference between the concessional interest rate offered to the borrower and the domestic interest rate of the lender rather than the artificial formulae which benefit low interest rate countries). Instead we have been led along this foolish path of increasing the concessional concessionality on each loan while leaving an advantage to the Americans (for one reason) and the Japanese (for another).

Peter McGregor,
18-17 King Street, SW1.



Artificial football pitches

From Mr S. Binning

Sir,—I can understand that the Football League wants the maximum possible number of clubs to survive and is prepared to act to prevent closures and mergers. Yet in preventing them continuing to construct artificial pitches the League risks blocking off a promising route to financial stability for clubs of the lower divisions.

Artificial pitches are economically attractive first and foremost because they almost guarantee that games can be played and thereby maintain the club's cash-flow when it might otherwise be interrupted through fixture cancellations. No less important, however, is the additional revenue that can be earned from the pitch by hiring it out for purposes as diverse as hockey, American football, or even a Sunday market. With floodlighting available, as it already is in the League grounds, the pitch has a potential 10-12 hour revenue earning a day. Moreover, the wider use of football grounds' facilities can only help to integrate them into their communities, an ideal to which the League has long paid lip-service. There are still some technical

problems to be overcome before the characteristics of artificial pitches match those of grass in all respects. Yet, no one who is familiar with the advances in the design of artificial surfaces for hockey over the past 5-10 years will doubt that this can be achieved, especially with a potential market of 90-90 clubs to aim at. By adopting a negative attitude from the outset, the League creates a self-fulfilling prophecy: "No market, no development work, no improvement, no approval," etc.

Few would dispute that a good grass pitch is still the best surface for football. Given the current financial uncertainty surrounding many clubs, however, adopting artificial surfaces appears to be an acceptable compromise to maintain the League's rich diversity. It would be ironic if the authorities' attitude were seen to push clubs into financial collapse making them easy prey for property developers. That surely is a result that hardly anyone wants.

Simon Binning,
Grant Thornton Management Consultants,
Fairfax House,
Fulwood Place, WCL.

Potential for overseas sales

From Mr S. Anderson

Sir,—I read (March 10) with interest your article headed "Huge potential for overseas sales" but I believe it missed one of the key issues in successful exporting.

Some companies are not performing abroad, particularly on the continent, because they have made ill-considered decisions with regard to the appointment of agents and distributors. Too many small British companies appoint the first candidate they come in contact with, only to find afterwards that the company appointed is unsuitable and difficult to change.

Your article refers to the survey done by the Small Business Research Trust which is indicative of the problem. Few British companies regard language as a barrier because too many of

them think that a foreigner's ability to speak English is directly related to his commercial ability to do good job for them. It also indicates that too few British companies understand the necessity of doing their commercial homework on a foreign market (distribution, pricing, competition etc) before mortgaging their future by appointing a representative who they later may have great difficulty in getting rid of when he doesn't perform.

With sterling at its current level against European currencies the time is now right for small British companies to be expanding their export activities to the Continent.

Stuart Anderson,
Pemberton Associates,
19 Stratford Place.

Funding for UK business schools

From the Chairman, Business Graduates Association

Sir,—As you rightly mentioned in your editorial (March 11) the recent decision of the University Grants Commission to reduce funding for UK business school education, particularly at London and Manchester, is a matter of considerable national concern.

In the past few years there has been a significant expansion in UK management education at both undergraduate and post graduate levels. This new generation of professionally trained managers is increasingly finding itself in senior positions throughout industry. New industries and companies, as well as the old ones undergoing over- due transformations, are increasingly recognising the urgent need for greater professionalism in business and management. The training and education industry catering for this expansion may be far from perfect but it has come a long way in the past 20 years. At last this effort is beginning to make a significant contribution to the regeneration of the British

economy. Yet just at the point when this progress needs to be recognised and expanded, the UGC in its apparent wisdom appears to consider it is in the national interest to reduce funding to two of the key management institutions in the country. Both London and Manchester Business Schools already have a significant and growing element of private sector funding but recent pressures could easily result in their efforts being used to educate a greater proportion of overseas managers. Major reports on the future of management education in the UK, commissioned by the RIM and CBI, are expected in the next few months and what is needed is a thorough discussion of the objectives, strategy and priorities of the whole management education system before radical and apparently almost instant changes are undertaken in funding. Even if the Government doesn't want the public-sector funding to take the management education sector seriously, it should at least take the way it changes priorities seriously. It is ver-

gely on scandalous to find that a London Business School press release has to complain that "LBS was given no warning of the provisional funding cuts, only much more in the past 12 months of a substantial expansion in student numbers."

The only credible explanation for the UGC's behaviour, given the heavy-handedness, appears to be that it is attempting to use training-by-example as a way of educating the business schools on how to operate in an uncertain and unpredictable world.

On the other hand, there is now increasing evidence to support the argument that it is not only much more in the national interest for us to expand the resources going into the critical area of management education, but that urgent consideration should be given to finding places on some of these programmes for the members of the UGC themselves.

Bruce Lloyd,
28, Margaret St, W1.

Unwelcome Mayfair shopping plan defended

From Mr M. Coombes

Sir,—I would like to comment on the article "Unwelcome Mayfair development" (March 9). This letter I believe would have been unnecessary if Mr Amery had talked to me about our design.

The article refers to this practice being well known for Heathrow and the Roman Catholic Cathedral at Liverpool. I do not agree with Mr Amery's views of the late Sir Frederick Gibberd's work, but that apart, I fail to see the relevance of these buildings, which were not designed or executed by any of the existing partners. I think the author is indulging himself in some architectural mud slinging which is as silly and irrelevant as if he had questioned my paragon. I would like him to visit the restored Carriage Hall in Floral Place, Covent Garden; he might see it in a more objective light.

If one reads the inspector's report which I hope Mr Amery will now undertake, he clearly is in favour of the proposals as well as rejecting alternative schemes of patching up with minor improvements. He did not suggest consent to the Minister on the grounds of some detailed points which related to overlooking and light angles and the juxtaposition of the offices to some of the existing buildings. We have now eliminated all these points by removing the offices from above the shopping arcade. The inspector stated: "It is my opinion that the concept adopted by the appellants provides an acceptable, and

perhaps the only, realistic long-term future for the appeals site."

Twenty-three of the 24 listed buildings on the site will be restored. These and the other existing buildings (58 per cent of the total on the site at present) will have their front, rear and back walls kept to their original detailing. Where Mr Amery's idea of facadism comes from I have no idea.

We are well aware of the richness of small businesses on the site. Our proposals allow for all to come back on the site and in many cases they can remain on site during the building and restoration programme. There will be no loss of workshop gallery or residential accommodation.

The article states that "it is not hard to imagine fluorescent lit cells behind so-called Georgian facades". The only relevant point in this sentence is imagine, it is a figment of imagination although I do have to confess that it is possible that we might provide electric lights. As pleasant as it might be for me to ride to work on a horse I think I might find it a bit inconvenient in this day and age and in the same sense I prefer drawing with anglepoises rather than oil lamps.

Unfortunately architectural critics have recently taken to categorising buildings by post-19 or neo-19 that not surprising as so much of our buildings are now subject to the whims of fashion. I personally do not hold this view with this approach and believe architecture should stem

from use and form and relationship to its site and in this case surrounding buildings. The rules of proportion and delight to the eye apply as well, there is nothing neo-Victorian in my design.

We were accused of "gobbling up whole areas of cities and spitting them out again as indigestible and unappetising lumps." What arrogant nonsense, I have previously explained that 90 per cent of the existing buildings are kept and 23 of the 24 listed buildings are properly restored.

The final misconception is the very purpose of the shopping itself. It is suggested that the shopping should go to Oxford Street or Broad Street and that it is an attractive commercial proposition.

The idea of the scheme is to join South Moulton Street to Bond Street by a shopping arcade. It is not difficult to see the source of our scheme. A chain of very special shops runs from Princess Arcade, Burlington Arcade, Bond Street, South Moulton Street to Christopher's Place. We would be providing a much needed missing link to a shopping pattern that is of international importance. At the same time we have the opportunity to keep the existing use on the site and to restore the fine buildings that front Bond Street, Brook Street and Avery Row.

Michael H. Coombes,
Frederick Gibberd Coombes & Partners,
82-84 St John Street EC1

Effectively eradicating the tanker surplus

From Mr K. Shilleto

Sir,—I fear the Chamber of Shipping and other interested parties are spitting into a force 10 gale when appealing to the Chancellor for fiscal considerations. They are not working the basic problem which is one of over-supply. In bulk carriers a balance may be struck within 1987 or early in 1988; for tankers the outlook is bleak, though not without hope.

In the light of the Zebrugge tragedy, it is worth considering whether the possibility of good compensation of ever present risk. Imagine the outcome of a collision in the Channel between one of the soon to be introduced "super-tankers" and a fully loaded Very Large Crude Carrier of 250,000 tons capacity bound for Rotterdam. Thousands of passengers entombed or thrown into a raging sea of fire. Little chance of any rescue. That such an accident has not occurred to date is a tremendous

tribute to the professionalism and expertise of the Channel monitoring services and all mariners.

The average age of VLCCs was 11.2 years at the end of 1985. About 25 per cent of VLCCs is 15 years old and that percentage is rising by the month. These monsters have built-in problems of breakage and manoeuvrability which do not decrease with age and represent a growing peril to their crews and other traffic when operating in confined waters or those carrying dense traffic.

The tanker surplus could be promptly and effectively eradicated by refusing a trading licence to VLCCs aged 15 years or more either by mandatory withdrawal of insurance cover or other international action and restricting trading patterns for all vessels in the class (over 200,000 dwt). For example, VLCCs in cargo to the Arab Gulf, to Rotterdam, West Germany and Scandinavia would have to pass

north of the British Isles. No VLCCs would be permitted closer than fifty miles to inhabited coasts worldwide, except for normal safe port approach routing.

These two sanctions alone would greatly reduce oil transportation capacity, increase the ton-mile factor for large vessels and improve income for tanker owners, thus enabling smaller tankers to operate profitably at substantially higher freight levels and permitting ship-owners to re-invest in new and therefore safer tonnage without assistance from the Chancellor.

The consumer would hardly suffer more than usual at the petrol pump as freight today represents one-eighth of the cost per barrel and the oil companies' habit is to raise prices in a high freight situation in a low. He might also cross the Channel with fewer quails.

Mr D. Shilleto,
2 Basil Street SW3.

TV time for the views of ordinary people

From Ruth Kelham

Sir,—Christopher Dunkley (March 11) has really come out of the closet. He wants TV to give more time to the views of "ordinary" people — in order to ridicule them and expose them for their odiousness and

possibly sinister implications. These views, which he describes as "deeply conservative with a small c" when he first mentions them, have become "right-wing" by the end of the article. To use the example with which he started the train of thought, what is particularly right-wing

about believing homosexuality to be "unnatural"? I suggest he tests this view among "ordinary" Labour supporters, on housing estates not in newspaper offices.

Ruth Kelham,
13 Bloemfontein Avenue, W12.

THE BUDGET: The Chancellor's Speech

Central aim of financial strategy is to reduce money growth

Mr Nigel Lawson, presenting his Budget yesterday, said that he expected 1987 to be a year of balanced growth with low inflation. But he cautioned that despite a strong growth in exports it would take time for the full effect of the exchange rate adjustment

The setting for this year's Budget is more favourable than it has been for very many years.

We are now entering our seventh successive year of steady growth, and the fifth in which this has been combined with low inflation.

The public finances are sound and strong, and unemployment is falling.

These are the fruits of the Government's determination, in bad times as well as good, to hold firmly to our policies of sound money and free markets. Once again, I reaffirm those policies.

I shall begin, as usual, by reviewing the economic background to the Budget. I shall then turn to monetary policy and to the fiscal outlook this year and next.

Finally, I shall propose some changes in taxation designed to improve still further the prospects that lie before us.

A number of press releases, filling out the details of my proposals, will be available from the Vote Office as soon as I have set down.

I start with the economic background.

Nineteen eighty-six was dominated by the sudden collapse of the oil price. Our own economy was affected not only directly, as a major oil producer and exporter, but also by the pause in world growth as the world economy adjusted to what has been described as the third oil shock.

Despite this dislocation, however, the economy has developed in most respects as I forecasted a year ago.

In 1986 as a whole output grew by a further 2.1 per cent or so, which compares well with the experience of other industrialised countries.

It is worth recalling that during the 1960s, and again in the 1970s, Britain's growth rate was the lowest of all the major European economies.

Growth improved as inflation fell

By contrast, during the 1980s, our growth rate has been the highest of all the major European economies.

And this greatly improved growth performance has been accompanied by falling inflation, which at 3.1 per cent in 1986 reached the lowest figure for almost 20 years.

Over the last year, inflation has averaged less than 5 per cent.

During the first half of last year exports and hence output were affected by the pause in world growth to which I have already referred. But since the middle of the year exports have grown strongly. Indeed, over the last three months the volume of exports of manufactures was 6 per cent higher than a year earlier—a better performance than that of any other major economy.

This pattern has reflected in the rapid growth of manufacturing output in the second half of last year.

This resurgence of economic growth, coupled with the special measures we have taken, has brought about a welcome fall in the number of people out of work. Since July unemployment has fallen by more than 100,000; the largest six-monthly fall since 1973. Though the numbers out of work are still far too high, both youth unemployment and long-term unemployment are now lower than they were a year ago.

I announced a number of specific employment measures in my last Budget, and since then, my Rt Hon and Noble Friend the Secretary of State for Employment has further extended the Restart programme for the long-term unemployed.

There will also be more places on the Enterprise Allowance Scheme, and the number of Jobclubs is to be quadrupled. The new Job Training Scheme will eventually give a job to many of them.

Youngsters, vocational training leading to recognised qualifications.

Rate of growth of output

With these and other measures, this Government has developed its employment and training programmes on a scale which no other country can match. But the best hope of all for the unemployed is in the continuing vigour of the economy.

Since the early months of last year, there has been a further surge in manufacturing productivity. This continues the remarkable improvement in productivity growth achieved by British industry throughout the 1980s.

During the 1960s, and again in the 1970s, growth in manufacturing productivity in the UK was the lowest of all the seven major industrial countries in the world. During the 1980s, our annual rate of growth of output per head in manufacturing has been the highest of all the seven major industrial countries.

The recorded current account of the balance of payments went

into deficit in 1986 by around £1bn. This followed a cumulative current account surplus of some £20bn between 1979 and 1985.

Some deterioration in the current account was inevitable in the face of a 5.5bn loss of earnings on oil trade virtually overnight. But the significance of this should not be exaggerated. The exchange rate adjustment that followed the fall in the oil price is already contributing to an improved non-oil trade performance.

And earnings from the massive stock of net overseas assets have been acquired since 1979 will provide a continuing support to the current account in the years ahead. At well over £100bn, our net overseas assets are now greater than at any time since the (Second World) War, and second only to those of Japan.

Balanced growth and low inflation

Looking ahead, I expect 1987 to be another year of balanced growth with low inflation. Total output is forecast to rise by 3 per cent, with exports and investment up by rather more than that.

By then we will have registered the longest period of steady growth, at a rate approaching 3 per cent a year, that the British economy has known since the War. Manufacturing industry, in particular, should do well in 1987.

And with the non-oil economy set to grow at 3.1 per cent, there is every prospect of unemployment continuing to fall throughout the year.

In last year's Budget speech I said that the outlook for jobs depended on a sustained improvement in the performance of business and industry. That sustained improvement in economic performance is now well under way.

Despite the strong growth in exports, it will inevitably take time for the full effect of the exchange rate adjustment to work through.

The current account is thus likely to remain in deficit this year, by some £2.5bn, around half of 1 per cent of GDP.

As I foreshadowed in the Autumn Statement, inflation may continue to edge up for a time, perhaps exceeding 4 per cent by the summer before falling back to 4 per cent by the end of the year.

Imbalances in major economies

While short-term fluctuations are inescapable, it remains the Government's prime objective to keep inflation on an underlying downward trend.

Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole.

There are still serious imbalances affecting the three major economies—the United States on the one hand and Japan and Germany on the

other—which, if not handled properly, could lead to a simultaneous downturn in all three.

And this in turn could be exaggerated by renewed turmoil in the foreign exchange markets, whose tendency to over-value is as notorious as it is damaging.

It was to address these dangers that the finance ministers and central bank governors of six major nations met in Paris last month, and agreed among other things to co-operate closely in fostering a period of exchange rate stability.

In my Budget speech last year, I said: "Provided we are not over-ambitious, I believe that the Plaza accord is something we can usefully build on."

That is what we have now done, with Plaza II. But it would be idle to deny that the wider risks still remain.

Reducing growth of money GDP

Short of a world downturn, which can and must be avoided, British industry now has an outstanding opportunity, with growing markets at home and overseas, low inflation, rapidly growing productivity and greatly improved profitability.

Provided it can control its costs and maintain its present competitive advantage, and assuming the continuation of present policies, we can look forward to many more years of strong growth combined with low inflation.

For its part, the Government will keep in place a sound and prudent financial framework. That means, as it has done since

OUR FLAMBOYANT Chancellor can still pull in a capacity audience even when the millions of his Budget have been well rehearsed and extensively discussed by the pundits for weeks in advance.

A few minutes before Mr Lawson rose to give his annual performance Tory MP Tim Smith provoked considerable hilarity when he leaned over from the members' gallery above the chamber to put a question to Kenneth Baker, the Education Secretary.

The Speaker, Bernard Weatherill, quelled the mirth by explaining that he had called Mr Smith because he had been unable to find a seat in the chamber. Mr Baker, craning his neck to see the distant figure in the gallery, amiably declared that it was very nice to receive good

advice from an MP.

As Mr Lawson got up at the despatch box the sunshine streamed in through the windows symbolically illuminating the man who—according to excited speculation—was about to shower gold on a grateful electorate.

In an instant reaction to the short Budget speech, Neil Kinnock, the Labour Party leader, ironically dubbed him "Nicky Lawson" hastily adding that his Budget policies were tough luck on the British public.

As usual, Nigel did not indulge in false modesty. The setting for the Budget was more favourable than for many years... seventh year of steady growth... public finances sound and strong... unemployment falling.

"Here we go again," growled Labour MPs as the

unchanged at 85 per cent—lower than in any other major industrial nation, although the US is now set to emulate us.

The low rate of corporation tax enables me to introduce a further simplification into the system. At present, while companies' capital gains are liable to corporation tax, the amount of such gains is first adjusted by a certain fraction so that the effective rate of tax is the same as the rate on capital gains made by individuals.

This dates back to the time when the two rates of tax were far apart. This is no longer the case: indeed, the corporation tax rate for small companies is now below the capital gains tax rate.

Tax changes for capital gains

I therefore propose that, from today, companies' capital gains be charged at the appropriate corporation tax rate, without adjustment, save for the indexation which applies to all post-1982 gains.

Hitherto, companies have not been allowed to set payments of advance corporation tax (ACT) against their liability to tax on capital gains. This means that, where companies distribute capital gains as dividends, the gains are in effect taxed twice, once in the hands of the company and once in the hands of the shareholder.

I propose that, under the new system, companies should be able to set ACT payments against tax on capital gains. Taken together, these changes should yield £60m in 1988-89.

I also have some further simplification and rationalisation of the corporation tax system to announce.

At present, some companies established before 1965 do not have to pay their corporation tax until up to 21 months after the end of the period for which it is due, whereas companies established since 1965 have to pay their tax after nine months—and some building societies have to pay sooner still.

This difference in treatment cannot be justified. Moreover, it is open to an abuse which could put the timing of a substantial proportion of the total corporation tax yield at risk.

I therefore propose that all companies and building societies should be treated the same way, with all liable to pay corporation tax nine months after the end of the accounting period on which the tax is due.

The change will be phased in, but I would expect it to yield around £100m in 1988-89.

While business and industry as a whole are well, the North Sea oil sector has inevitably been hard hit by last year's oil-price collapse.

My Rt Hon friend the Secretary of State for Energy and I have followed closely the effects on North Sea producers and

their suppliers. The industry itself is generally confident about the longer-term prospects; while as for the tax system, not only is it inherently price-sensitive, but the companies themselves have repeatedly stressed their desire for stability.

My first and most important proposal, therefore, is that, as from October 1, businesses whose annual turnover is under £1m, which means more than half of all traders registered for VAT, will be able to choose to account for VAT on the basis of cash paid and received.

In other words, they will have no liability to pay VAT until they themselves have received the money from their customers.

In addition to easing the cash flow problems caused by late payment, this system will of course provide automatic VAT relief for bad debts.

I have to warn the House, however, that I cannot legally introduce this change without first obtaining a derogation from the European Community's Sixth VAT Directive. I am applying for the

necessary derogation today. The House will note that the upper limit of £1m is considerably greater than the £100,000 suggested in the consultative document.

VAT rules eased for small business

Second, I propose to give these businesses the option of accounting for VAT on an annual basis. Instead of making quarterly returns, they would make regular payments on account, and then file a single return at the end of the year.

This option, which offers considerable streamlining, will be available next year.

Third, the period within which businesses must apply to be registered for VAT will be extended from 10 to 30 days.

Fourth, there will be changes to the rules for the special VAT schemes for retailers, and more small and medium-sized businesses will be able to make use of the simpler schemes.

I believe that the changes I have outlined, and in particular the option to move to cash accounting, will be widely welcomed by the small business community. The cost will be £115m in 1987-88 and £80m in 1988-89.

VAT threshold to be raised

In addition, I propose to increase the VAT threshold to £21,300, to keep it at the maximum permitted under existing European Community law.

In the light of the responses to the consultative document, I shall not be going ahead either with the withdrawal of the so-called standard method by which retailers calculate their gross taking for VAT, or with the compulsory deregistration of traders below the VAT threshold.

I have one further measure to help the small businessman, unrelated to VAT.

I propose to increase the limit for capital gains tax retro-

Parliamentary sketch

Chancellor continued with his glowing preamble.

There was also the deft verbal conjuring that we have come to expect from Mr Lawson. The time had come to repeal the Exchange Control Act and the necessary legislation would be contained in the Finance Bill.

He then went on to needle the Opposition by recalling that Roy Hattersley, Labour's shadow Chancellor and deputy leader, had said in New York last September that his party had no intention of reintroducing statutory exchange controls. Therefore he was confident that his proposal would be welcome on all sides of the House.

Those on Labour's front bench had to accept this coup with a good grace despite the glowering of some of the left-wingers behind them who

would love nothing better than another dose of strict exchange control.

However, the Chancellor's reputation as a master of presentation at the despatch box took a further boost when he became bogged down in some arcane passages dealing with taxes on business.

It seemed that he had mislaid part of his brief and, after a moment of confusion and hesitation, his FPA, Peter Lilley, went racing off to the loyal Treasury officials who sit in a box in the corner of the chamber ever ready to give a prompt to their masters.

There was great merriment on the Labour benches at this. Mr Lawson, looking very irritated, waved to Mr Lilley to desert, whereupon the FPA hastily sat down and did his best to look inconspicuous.

John Hunt

of taxation, which of course remains a major objective of Government policy. But I am sure it is right to err on the side of prudence and caution, and to build a still firmer base for the future.

That is the principle on which both I and my predecessor have consistently conducted economic policy these past eight years, and I see no reason to depart from it now.

Seventh year of steady growth

Meanwhile, I would make one further observation, of a different nature. Economic arguments are seldom conclusive, one way or the other. This is chiefly because it is unusual for economic policies to be held in place long enough to provide sufficient evidence. But the 1980s have been different; and, as a result, one critically important economic argument has now been concluded, finally and decisively.

Throughout our period of office, our critics have consistently maintained not only that a fiscal stimulus would produce real economic growth, but that without an expansionary fiscal policy sustained growth was impossible.

They were wrong, and they have been proved wrong.

The British economy is now embarking on its seventh successive year of steady growth, at an average rate of setting on for 3 per cent a year.

Expansionism well ignored

And during that time the PSBR, even if privatisation proceeds are added back, has been deliberately and steadily reduced from a shade under 6 per cent of GDP to a little over 2 per cent. Indeed, had I or my predecessor at any time heeded the advice of our so-called expansionist critics, the British economy would have been in the unprecedently favourable position it is in today.

Before I turn to my proposals for changes in taxation, I have one other change of a specific nature to announce.

In 1979, a few months after the present Government had first taken office, my predecessor announced the abolition of exchange controls, which had been in continuous operation ever since the outbreak of war in 1939.

That bold action has, over the past 7½ years, proved wholly beneficial to the British economy; and I am glad to note that other European countries are now moving in the same direction.

But the Exchange Control Act remains on the statute book. The time has come to repeal it.

The necessary legislation will be contained in this year's Finance Bill.

I note that, in what was clearly intended to be a major speech in New York in September, the Deputy Leader of the Labour Party declared that I quote: "The Labour Party has no intention of reintroducing statutory exchange controls."

I am confident, therefore, that the proposal I have just made will be welcomed on all sides of the House.

I now turn to taxation.

First, taxes on business. The fundamental reform of the corporation tax system which I introduced in 1984 came fully into effect last April.

The new system has undoubtedly improved the quality of investment decisions in Britain and is also encouraging more overseas companies to set up here.

During the transition to the new system, companies were given advance notice of the main rate of corporation tax for the year ahead.

Corporation tax to stay at 35%

This helped them in their forward planning, and I intend as far as possible to continue the practice of setting the rate in advance.

Accordingly, I can announce now that the main rate of corporation tax in 1987-88 will be

unchanged at 85 per cent—lower than in any other major industrial nation, although the US is now set to emulate us.

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During the transition to

THE BUDGET: The Chancellor's Speech

Challenge to managers to make use of profit-related pay

Continued from previous page

Third, I propose to end the present excessively generous treatment of tax credit relief for foreign withholding tax paid on interest on bank loans. In future, banks will be able to offset this tax credit only against tax on the profit on the relevant loan, and not more widely.

Fourth, the tax treatment of Lloyd's syndicates as it applies to the insurance to Close system is clearly unsatisfactory. I therefore propose to bring it into line with that of provisions for outstanding liabilities made by ordinary insurance companies and, indeed, of companies' provisions made by other financial traders.

I have asked the Inland Revenue to consult urgently with Lloyd's about the details of the legislation. The new rules will first apply to premiums payable for the Lloyd's account which closes on December 31 this year.

Fifth, I propose to implement the Keith Committee's recommendation that interest should be charged in the limited number of cases where an employer does not apply for a property and a formal assessment has to be made to recover the tax.

This change will take effect from April next year, and the yield in 1988-89 is estimated at \$5m.

I have one further proposal to make in the broad field of business and tax.

In my Budget last year I suggested the possibility of introducing a measure of tax relief for profit-related pay.

I related this to two considerable advantages that might be expected to flow from arrangements which relate pay to profits.

First, the workforce would have a more direct personal interest in the profits earned by the firm or unit in which they work; and, second, there would be a greater degree of flexibility in the face of changing market conditions. Such flexibility is vital if, as a nation, we are to defeat the scourge of unemployment.

Last July, I presented a green paper on profit-related pay, in consultation with my Rt Hon. and Noble Friend the Secretary of State for Employment and my Rt Hon. Friend the Secretary of State for Trade and Industry. I now propose to introduce a scheme of tax relief broadly along the lines floated in the green paper.

My proposals depart from those in the green paper in one important respect. I am doubling the proportion of an employee's profit-related pay that will be tax free from a quarter to a half, and I am also increasing the upper limits on the relief. So for a married man on average earnings receiving 5 per cent of his pay in profit-related form, the tax relief will be equivalent to a penny off the basic rate of income tax.

The cost will inevitably depend on the level of the relief, but it could be \$5m in 1988-89, building up to substantially more than that, as take-up grows, and as the proportion of an employee's pay which is profit-related rises.

Challenge to management

Profit-related pay is no panacea. But then there are no panaceas. What is a tool to help Britain overcome one of our biggest national handicaps: the nature and behaviour of our labour market.

I am today challenging British management to take advantage of that tool and to make good use of it, for the good of their firm, their workforce and their country.

I turn now to the taxation of savings.

A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism. That means wider home ownership, wider share ownership, and wider pension ownership.

Over the past eight years, the Government has actively promoted the first two, and has embarked on the third, now home ownership, above all through the council tenant's right to buy, and share ownership, through the rapid growth of employee share schemes, through the massive success of the privatisation programme, where Britain has led the world, and most recently through the new personal equity plans, which I announced in last year's Budget and which started up on January 1 this year.

In the first months of the scheme, more than 2,000 people took out personal equity plans, many of them first-time investors, as I had hoped.

We know that 65 per cent of households now own in 1979, homes, 21m have been no. However, there for the more official figures of share ownership in Britain over the past eight years.

The Treasury and the Stock

Exchange therefore jointly commissioned a major independent survey of individual shareholding in Britain. The results are now available.

They show that there are now some 84m individual shareholders in this country—amounting to one fifth of the total adult population, and roughly three times the number there were in 1979.

And then there is wider pension ownership. Two years ago, the Government embarked on a major strategy to extend the coverage of private pension provision and to give individuals far more flexibility and choice in the way they provide for their retirement.

We have already introduced a number of important new measures to that end, and the tax changes I am announcing today will complete the picture. The cornerstone of the Government's pensions strategy is the introduction of an entirely new means of provision for retirement, developed by my Rt Hon. Friend the Secretary of State for Social Services.

This is the personal pension, which will be launched at the beginning of next year, three months earlier than planned.

Personal pensions are an important new dimension of ownership. They will enable employees—if they so wish—to opt out of their employers' schemes and make their own arrangements, tailored to fit their own circumstances. And they will provide a new opportunity for the 10m employees who at present do not belong to an occupational scheme to make provision of their own and, if they so wish, to contract out of State.

By the end of last year I undertook to bring forward proposals to give personal pensions the same favourable tax treatment as is currently enjoyed by retirement savings.

These were fully published in a consultative document last November, and the necessary legislation will be contained in this year's Finance Bill.

In addition, to encourage a wider spread of occupational schemes, employers will be able to set up simplified schemes with the minimum of red tape.

This will be particularly welcome to many small employers who have been discouraged by the complexity and open-ended

that provision is estimated at \$55m in 1988-89.

For friendly societies, I have decided to replace the existing tax-exempt life-annuity limit based on the sum assured with a new limit based on annual premiums. I propose to set this at \$100 a year, which will greatly increase the scope for the traditional societies to offer life policies to their members.

The tax-exempt limits governing sickness and accident benefits which trade unions provide for their members have not been changed since 1962. With effect from today, I propose to increase them to \$3,000 for lump sums and \$25 for annuities.

Finally, in this section, I turn to inheritance tax. In my Budget last year I

abolished the pernicious capital transfer tax on lifetime gifts between individuals, which was particularly damaging to the ownership and health of family businesses.

This year I propose to extend the same exemption from tax, on similar terms, to gifts involving settled property where there is an interest in possession.

This will not, however, apply to discretionary trusts. These changes will be of particular benefit to family businesses and to heritage properties, both of which are often held in trust.

I also propose to make two minor changes affecting business assets.

First, holdings in companies quoted on the unlisted securities market will henceforth be treated for inheritance tax purposes in precisely the same way as holdings in companies with a full Stock Exchange listing.

Second, business relief for minority holdings in excess of 25 per cent in unquoted companies will be increased from 30 per cent to 50 per cent.

The purpose of both these changes is to concentrate business relief more accurately on those assets which could provide funds to pay the tax only at the risk of damaging the business.

Inheritance tax threshold raised

The abolition of the tax on lifetime gifts was of the first importance to family businesses.

But I remain conscious that it did little to help the smallest taxable estates, where the family home is often the principal asset.

I therefore propose to make

Despite claiming that the proposals had little to do with the general good and everything to do with the coming general election, he contended that Mr Lawson had also managed to produce a "remarkable anti-climax"—an apparent reference to the relatively subdued cheer he was accorded by the Tory benches at the end of his

speech.

Mr Kinnoch maintained that the Chancellor would have been acting in accordance with the wishes of the British people if instead of announcing across-the-board tax cuts he had provided across-the-board cuts in unemployment.

Instead they had been given a Budget which almost entirely ignored the national need for efficiency in the production of wealth and the national demand for fairness in the distribution of wealth.

Mr Kinnoch calculated that the buoyancy of the revenue had given the Chancellor the opportunity to devote \$25m to the creation of 300,000 jobs—the money allocated to tax cuts would secure, at best \$5,000 jobs over two years.

He forecast that despite the

pre-election largesse, the giveaways and the bribes the Chancellor had invited not celebration but contempt from the British people.

To Labour cheers, Mr Kinnoch emphasised that despite the cuts announced by the Chancellor the nation would still be having to bear a bigger tax burden than when Labour left office in 1979.

Tax cuts totalling \$15m would have been needed to restore the position to that inherited by Mrs Thatcher when she became Prime Minister, he said.

The present Government was the biggest taxer in British history and the biggest job destroyer—2m had been added to the unemployment total during its term of office.



Mr Nigel Lawson, the Chancellor, with his Treasury ministerial team—front right, Mr John MacGregor, Chief Secretary. (Back row from left): Mr Peter Brooke, Minister of State; Mr Norman Lamont, Financial Secretary; Mr Ian Stewart, Economic Secretary

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I have two other changes in allowances to announce. First, I propose to give an additional increase in the age allowance for those aged 60 or over. For them, the increase will be double the amount due under statutory indexation, so that, for the very elderly, the single age allowance will rise by \$220 to \$2,070 and the married age allowance by \$240 to \$2,345.

Around 400,000 taxpayers will benefit from this new measure, and up to 25,000 of them will be taken out of income tax altogether.

Second, the blind person's allowance has remained unchanged since 1961, when it was increased by \$180 to its present level of \$360.

For 1987-88 I propose to increase it by a further \$180, to \$540.

Finally, I turn to the basic rate of income tax. This is the

starting rate of income tax for everyone and the marginal rate for the overwhelming majority of taxpayers.

In my Budget speech last year I reaffirmed the aim set out by my predecessor in 1979, to reduce the basic rate of income tax to no more than 25 per cent. That remains my firm objective.

However, given my decision to use the greater part of the fiscal scope I now have to reduce the Public Sector Borrowing Requirement, that goal cannot be achieved in this Budget.

I can, however, take a further step towards it, as I did last year.

I am therefore reducing the basic rate of income tax by two pence, to 27 per cent.

This reduction, which will benefit every taxpayer in the land, will be worth more than \$3 a week to a man on average earnings.

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THE BUDGET: Details

Substantial rise forecast in investment and non-oil exports

THE financial statement published yesterday outlined short-term prospects for the period to mid-1988. It said:

The economy has been growing at around 3 per cent since last spring as exports have recovered strongly. For 1986 as a whole, recorded GDP growth was about 2½ per cent. A substantial rise in investment and non-oil exports is forecast for 1987, and GDP is expected to grow by 3 per cent with manufacturing output rising slightly faster.

Employment has continued to grow, particularly since the middle of 1986. There has been a reversal of the previous rising trend in unemployment, and there are good prospects for a continuing decline this year.

Inflation fell last year to 3½ per cent, its lowest level for nearly 20 years. During 1987, inflation may rise temporarily to a little over 4½ per cent, as last year's movements in prices and in mortgage interest rates affect the year-on-year comparisons. But it is expected to fall back to around 4 per cent by the fourth quarter.

Output in the major industrial countries has been rising by 2½-3 per cent a year since 1984, and is likely to continue at that rate in 1987. Imports by developing countries (other than oil exporters) should rise this year. Markets for UK exports, particularly manufacturing, may grow a little faster in 1987 than in 1986.

Following the fall in oil prices a year ago, the current account of the balance of payments recorded a deficit of around £1bn in 1986. Both export and import values rose sharply in the second half of last year. A further relatively modest current account deficit of £2½bn (some ½ per cent of GDP) is forecast for 1987.

The forecast for the UK assumes that fiscal and monetary policies are set within the framework of the MTFPS. It makes the conventional assumption of an oil price of \$15 a barrel, and in last year's forecast, and assumes that the exchange rate will remain close to its current level.

Financial conditions: The dollar fell further during 1986, particularly against the Deutschmark and the Yen. These changes will, over time, help to reduce the size of the US current account deficit and the Japanese and German surpluses. As explained above, Finance Ministers of six of the leading industrialised nations agreed last month to seek a period of stability in exchange rates. Sterling fell in the summer of 1986, in the wake of the fall in the oil price. It remained steady between October and mid-February, but has since strengthened.

Short-term interest rates in the UK, which rose to a peak of 13 per cent in January 1986, fell last spring to around 10 per cent. But with sterling weakening in the summer and autumn and with M0 also indicating an easing of monetary conditions, interest rates were raised to 11 per cent in October; they remained around that level until early March, but have since fallen. Rates in several overseas countries have also been reduced in recent months. Longer-term rates in the UK followed the same broad profile as short-term rates during 1986, falling sharply in the spring and rising in the autumn. In recent weeks they have fallen again, to below 10 per cent.

M0 growth was below the centre of its 2-6 per cent target range in the early months of 1986-87. Its growth quickened from August onwards, reflecting both the falls in interest rates in the spring and the buoyant growth of personal incomes, and moved into the upper half of its target range. More recently it has fallen back again to the middle of its target range.

The growth of £M3 rose to 18 per cent in the early months of 1986-87 and has since remained at about that level. This is some 3 points above the top of its target range, which in turn was set well above the growth of money GDP. Holdings of bank deposits by companies and financial institutions have grown particularly rapidly. The wider aggregates that include building societies' liabilities have grown more slowly, although also at a rate well in excess of the growth of money GDP; the year-on-year growth of FSL2 has been about 12-14 per cent in recent months. Credit has continued to grow strongly, reflecting at least partly the pace of financial innovation and liberalisation.

The growth of broad money must be seen in the context of the strong growth of private sector wealth and strongly positive real interest rates that have made financial assets attractive to hold. Increased competition in financial markets has narrowed the margins between borrowing and lending rates and their borrowing. The considerable increase in liquidity since 1980 appears to have been willingly held, and has been accompanied by lower inflation.

World economy: The world economy has been strongly influenced by the fall in oil and other commodity prices, and by the substantial depreciation of the dollar. Lower import prices have helped to reduce inflation in the industrialised countries, and stimulated faster growth in real domestic demand. But developing countries—and oil producers in particular—have suffered a sharp deterioration in their terms of trade.

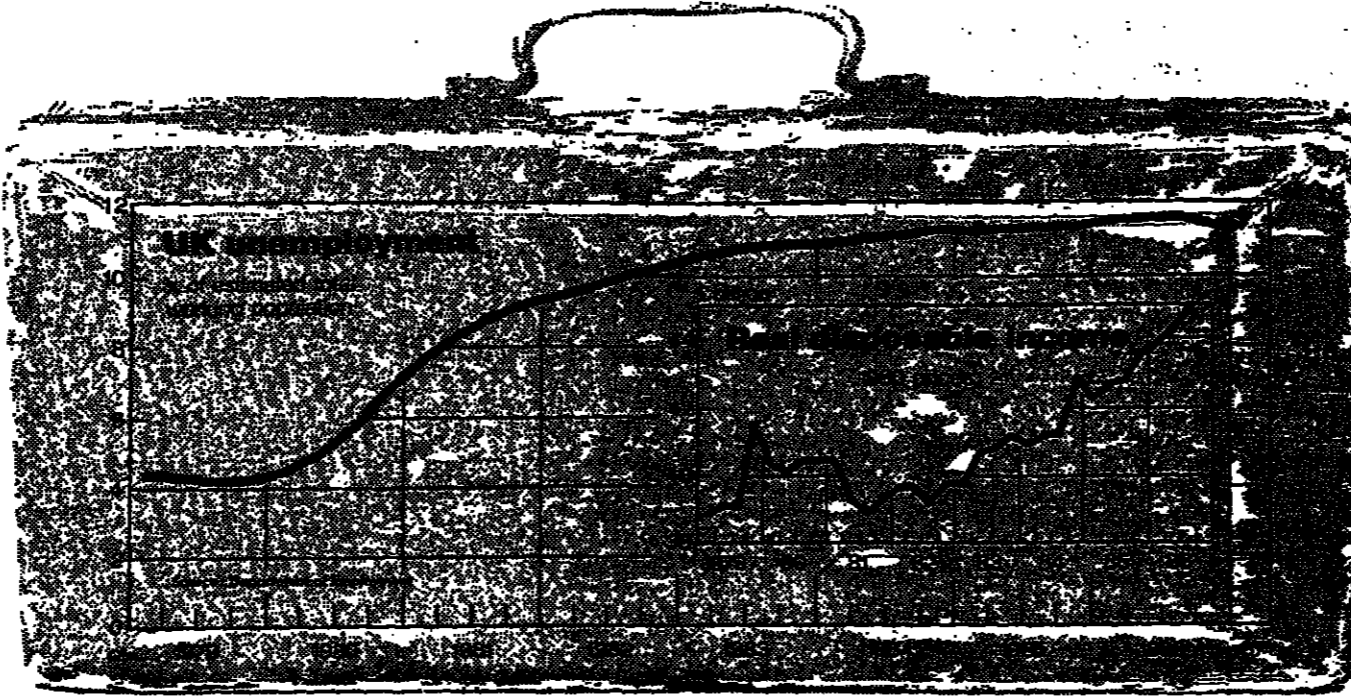
Real GNP in the seven largest OECD countries grew by about 2½ per cent in 1986. Domestic demand grew rather faster, at 3½-4 per cent, with large rises in household incomes and consumers' expenditure. Inflation fell further, and average consumer prices in the seven major countries increased by only 2 per cent in 1986.

Despite the buoyancy of domestic demand in these countries, industrial production has grown only slowly. This has been largely a result of weak export demand, particularly from developing countries, and relatively sluggish growth in investment.

The changes in exchange rates over the last two years are already beginning to have significant effects on trade volumes; but these have not been enough to overcome the terms of trade effects (the "J-curve"). As a result, the trade imbalances between the major countries remain large. The surpluses in Japan and Germany have continued to grow, though more slowly; and there has been little sign yet of any substantial reduction in the US current account deficit.

Oil prices fell below \$10 per barrel last summer, but rose in the second half of the year following the OPEC meeting in November. They have recently traded in a range of \$15-18 a barrel. Food and industrial materials prices also fell sharply through most of last year, although they recovered slightly in the autumn.

World import volumes are thought to have grown by more than 5 per cent during 1986.



FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT

	Consumers' expenditure	Government expenditure	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	Imports of goods and services	Less imports of non-oil goods and services	Less imports of non-oil goods and services: % of GDP	Plus statistical adjustment	GDP at factor cost	(Average annual growth 1980-1986)
1982	138.3	49.6	39.4	63.3	-1.1	289.4	59.4	39.4	0.4	0.4	199.9	198.2
1983	142.6	50.5	41.7	64.7	-0.7	301.2	62.8	41.7	-0.2	-0.2	208.7	198.7
1984	146.7	50.5	43.5	65.1	-0.1	312.1	63.5	43.5	0.1	0.1	212.7	199.7
1985	152.0	51.0	45.3	73.0	0.6	322.0	70.7	45.3	1.4	1.4	219.8	199.8
1986	159.2	51.6	46.6	75.3	0.8	333.2	74.5	46.6	2.1	2.1	225.5	199.9
1987	165.2	52.1	48.4	78.4	1.4	345.5	79.4	48.4	2.4	2.4	232.2	199.9
1988 H1	170.9	52.5	50.3	81.7	0.4	355.8	83.2	50.3	0.6	0.6	239.5	199.9
1989 H1	176.9	52.5	52.3	85.0	0.2	366.9	87.0	52.3	0.6	0.6	246.6	199.9
1990 H1	182.6	52.5	54.3	88.3	0.4	378.1	90.8	54.3	0.6	0.6	253.8	199.9
1991 H1	188.3	52.5	56.3	91.7	0.2	388.8	94.6	56.3	0.6	0.6	261.1	199.9
1992 H1	194.0	52.5	58.3	95.0	0.6	399.4	98.4	58.3	0.6	0.6	268.1	199.9
1993 H1	200.0	52.5	60.3	98.3	0.7	411.5	102.2	60.3	0.6	0.6	275.1	199.9
1994 H1	206.0	52.5	62.3	101.7	0.6	423.5	106.0	62.3	0.6	0.6	282.1	199.9
1995 H1	212.0	52.5	64.3	105.0	0.6	435.5	109.8	64.3	0.6	0.6	289.1	199.9
1996 H1	218.0	52.5	66.3	108.3	0.6	447.5	113.6	66.3	0.6	0.6	296.1	199.9
1997 H1	224.0	52.5	68.3	111.7	0.6	459.5	117.4	68.3	0.6	0.6	303.1	199.9
1998 H1	230.0	52.5	70.3	115.0	0.6	471.5	121.2	70.3	0.6	0.6	310.1	199.9
1999 H1	236.0	52.5	72.3	118.3	0.6	483.5	125.0	72.3	0.6	0.6	317.1	199.9
2000 H1	242.0	52.5	74.3	121.7	0.6	495.5	128.8	74.3	0.6	0.6	324.1	199.9
2001 H1	248.0	52.5	76.3	125.0	0.6	507.5	132.6	76.3	0.6	0.6	331.1	199.9
2002 H1	254.0	52.5	78.3	128.3	0.6	519.5	136.4	78.3	0.6	0.6	338.1	199.9
2003 H1	260.0	52.5	80.3	131.7	0.6	531.5	140.2	80.3	0.6	0.6	345.1	199.9
2004 H1	266.0	52.5	82.3	135.0	0.6	543.5	144.0	82.3	0.6	0.6	352.1	199.9
2005 H1	272.0	52.5	84.3	138.3	0.6	555.5	147.8	84.3	0.6	0.6	359.1	199.9
2006 H1	278.0	52.5	86.3	141.7	0.6	567.5	151.6	86.3	0.6	0.6	366.1	199.9
2007 H1	284.0	52.5	88.3	145.0	0.6	579.5	155.4	88.3	0.6	0.6	373.1	199.9
2008 H1	290.0	52.5	90.3	148.3	0.6	591.5	159.2	90.3	0.6	0.6	380.1	199.9
2009 H1	296.0	52.5	92.3	151.7	0.6	603.5	163.0	92.3	0.6	0.6	387.1	199.9
2010 H1	302.0	52.5	94.3	155.0	0.6	615.5	166.8	94.3	0.6	0.6	394.1	199.9
2011 H1	308.0	52.5	96.3	158.3	0.6	627.5	170.6	96.3	0.6	0.6	401.1	199.9
2012 H1	314.0	52.5	98.3	161.7	0.6	639.5	174.4	98.3	0.6	0.6	408.1	199.9
2013 H1	320.0	52.5	100.3	165.0	0.6	651.5	178.2	100.3	0.6	0.6	415.1	199.9
2014 H1	326.0	52.5	102.3	168.3	0.6	663.5	182.0	102.3	0.6	0.6	422.1	199.9
2015 H1	332.0	52.5	104.3	171.7	0.6	675.5	185.8	104.3	0.6	0.6	429.1	199.9
2016 H1	338.0	52.5	106.3	175.0	0.6	687.5	189.6	106.3	0.6	0.6	436.1	199.9
2017 H1	344.0	52.5	108.3	178.3	0.6	699.5	193.4	108.3	0.6	0.6	443.1	199.9
2018 H1	350.0	52.5	110.3	181.7	0.6	711.5	197.2	110.3	0.6	0.6	450.1	199.9
2019 H1	356.0	52.5	112.3	185.0	0.6	723.5	201.0	112.3	0.6	0.6	457.1	199.9
2020 H1	362.0	52.5	114.3	188.3	0.6	735.5	204.8	114.3	0.6	0.6	464.1	199.9
2021 H1	368.0	52.5	116.3	191.7	0.6	747.5	208.6	116.3	0.6	0.6	471.1	199.9
2022 H1	374.0	52.5	118.3	195.0	0.6	759.5	212.4	118.3	0.6	0.6	478.1	199.9
2023 H1	380.0	52.5	120.3	198.3	0.6	771.5	216.2	120.3	0.6	0.6	485.1	199.9
2024 H1	386.0	52.5	122.3	201.7	0.6	783.5	220.0	122.3	0.6	0.6	492.1	199.9
2025 H1	392.0	52.5	124.3	205.0	0.6	795.5	223.8	124.3	0.6	0.6	499.1	199.9
2026 H1	398.0	52.5	126.3	208.3	0.6	807.5	227.6	126.3	0.6	0.6	506.1	199.9
2027 H1	404.0	52.5	128.3	211.7	0.6	819.5	231.4	128.3	0.6	0.6	513.1	199.9
2028 H1	410.0	52.5	130.3	215.0	0.6	831.5	235.2	130.3	0.6	0.6	520.1	199.9
2029 H1	416.0	52.5	132.3	218.3	0.6	843.5	239.0	132.3	0.6	0.6	527.1	199.9
2030 H1	422.0	52.5	134.3	221.7	0.6	855.5	242.8	134.3	0.6	0.6	534.1	199.9
2031 H1	428.0	52.5	136.3	225.0	0.6	867.5	246.6	136.3	0.6	0.6	541.1	199.9
2032 H1	434.0	52.5	138.3	228.3	0.6	879.5	250.4	138.3	0.6	0.6	548.1	199.9
2033 H1	440.0	52.5	140.3	231.7	0.6	891.5	254.2	140.3	0.6	0.6	555.1	199.9
2034 H1	446.0	52.5	142.3	235.0	0.6	903.5	258.0	142.3	0.6	0.6	562.1	199.9
2035 H1	452.0	52.5	144.3	238.3	0.6	915.5	261.8	144.3	0.6	0.6	569.1	199.9
2036 H1	458.0	52.5	146.3	241.7	0.6	927.5	265.6	146.3	0.6	0.6	576.1	199.9
2037 H1	464.0	52.5	148.3	245.0	0.6	939.5	269.4	148.3	0.6	0.6	583.1	199.9
2038 H1	470.0	52.5	150.3	248.3	0.6	951.5	273.2	150.3	0.6	0.6	590.1	199.9
2039 H1	476.0	52.5	152.3	251.7	0.6	963.5	277.0	152.3	0.6	0.6	597.1	199.9
2040 H1	482.0	52.5	154.3	255.0	0.6	975.5	280.8	154.3	0.6	0.6	604.1	199.9
2041 H1	488.0	52.5	156.3	258.3	0.6	987.5	284.6	156.3	0.6	0.6	611.1	199.9
2042 H1	494.0	52.5	158.3	261.7	0.6	999.5	288.4	158.3	0.6	0.6	618.1	199.9
2043 H1	500.0	52.5	160.3	265.0	0.6	1011.5	292.2	160.3	0.6	0.6	625.1	199.9
2044 H1	506.0	52.5	162.3	268.3	0.6	1023.5	296.0	162.3	0.6	0.6	632.1	199.9
2045 H1	512.0	52.5	164.3	271.7	0.6	1035.5	299.8	164.3	0.6	0.6	639.1	199.9
2046 H1	518.0	52.5	166.3	275.0	0.6	1047.5	303.6	166.3	0.6	0.6	646.1	199.9
2047 H1	524.0	52.5	168.3	278.3	0.6	1059.5	307.4	168.3	0.6	0.6	653.1	199.9
2048 H1	530.0	52.5	170.3	281.7	0.6	1071.5	311.2	170.3	0.6	0.6	660.1	199.9
2049 H1	536.0	52.5	172.3	285.0	0.6	1083.5	315.0	172.3	0.6	0.6	667.1	199.9
2050 H1	542.0	52.5	174.3	288.3	0.6	1095.5	318.8	174.3	0.6	0.6	674.1	199.9
2051 H1	548.0	52.5	176.3	291.7	0.6	1107.5	322.6	176.3	0.6	0.6	681.1	199.9
2052 H1	554.0	52.5	178.3	295.0	0.6	1119.5	326.4	178.3	0.6	0.6	688.1	199.9
2053 H1	560.0	52.5	180.3	298.3	0.6	1131.5	330.2	180.3	0.6	0.6	695.1	199.9
2054 H1	566.0	52.5	182.3	301.7	0.6	1143.5	334.0	182.3	0.6	0.6	702.1	199.9
2055 H1	572.0	52.5	184.3	305.0	0.6	1155.5	337.8	184.3	0.6	0.6	709.1	199.9
2056 H1	578.0	52.5	186.3	308.3	0.6	1167.5	341.6	186.3	0.6	0.6	716.1	199.9
2057 H1	584.0	52.5	188.3	311.7	0.6	1179.5	345.4	188.3	0.6	0.6	723.1	199.9
2058 H1	590.0	52.5										

THE BUDGET: Details

Price stability and higher output is medium-term aim

THE financial statement published yesterday detailed the medium-term financial strategy. It said:

The Medium Term Financial Strategy (MTFS) continues to provide the framework for the Government's economic policy, as it has done since 1980. It is intended to bring inflation down further over a period of years, and ultimately to achieve price stability. It is complemented by policies designed further to improve other aspects of the UK's economic performance.

Economic policy is set in a nominal framework. Monetary and fiscal policies are designed to reduce the growth of money GDP, so bringing down inflation. They are complemented by policies to encourage enterprise, efficiency and flexibility. These policies improve the division of money GDP growth between output, growth and inflation, and help the creation of jobs.

Over the past seven years, money GDP growth has come down from over 20 per cent to around 6 per cent. In real terms the economy has grown at an average of 3 per cent a year since 1981, with little variation in the growth rate from year to year. This has been achieved while inflation has come down sharply from a peak of over 20 per cent in 1980 to 4 per cent now. Productivity is rising rapidly, at a rate which compares very favourably with our major competitors. The economy has weathered the fall in oil prices

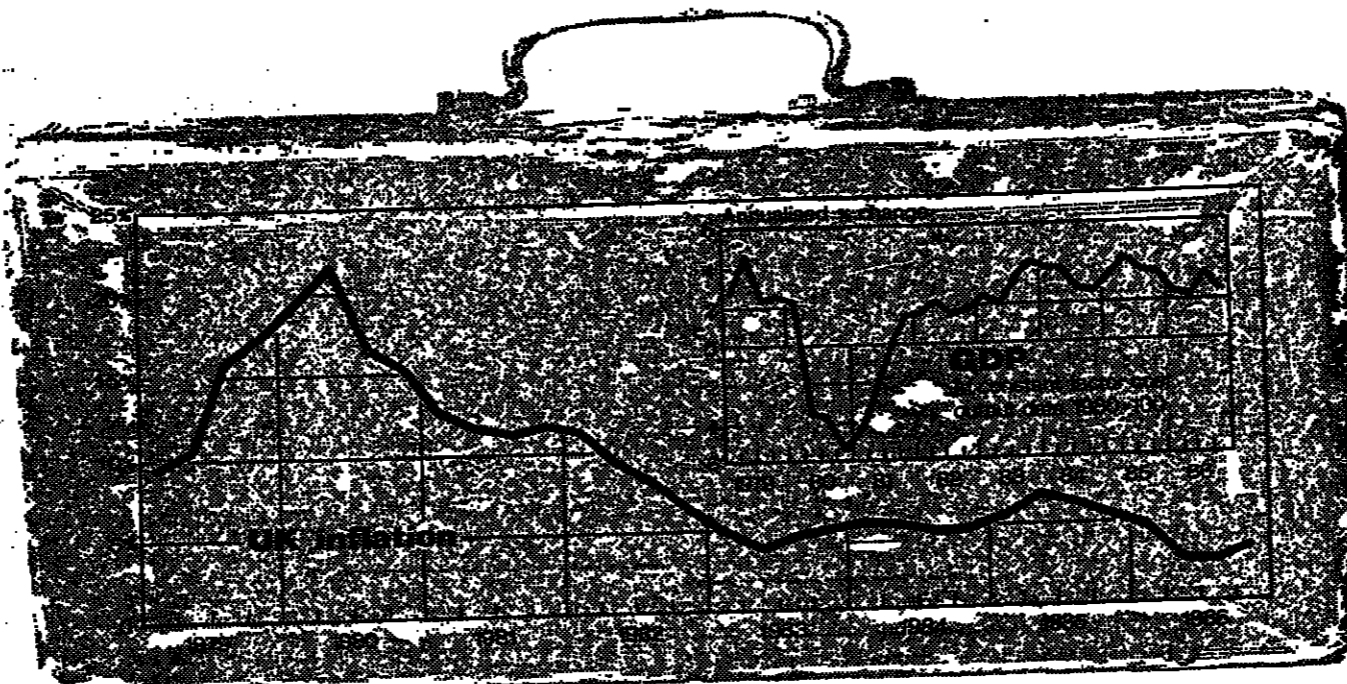
last year without disruption, and is about to embark on a seventh year of steady growth, combined with low inflation.

Objectives and the framework of policy: Policy is directed at maintaining conditions that will bring about a gradual reduction in the growth of money GDP over the medium term. In the short term there will inevitably be fluctuations, but the Government will aim to avoid departures in the medium term from the path set out in the accompanying table.

The growth of money GDP in 1986-87 is expected to be somewhat below the 6 per cent forecast at the time of the last Budget. The forecast for 1987-88 is correspondingly higher than the 6 per cent indicated last year. Over the two years to 1987-88 the growth rate is little changed. In the later years the growth of money GDP declines at the same rate as in last year's MTFS.

The Government sets monetary and fiscal policies to achieve monetary conditions which will deliver its objectives for money GDP. A declining path for money GDP growth, as in the accompanying table, requires firm monetary policies supported by low public sector borrowing.

Fiscal policy is reviewed each year at Budget time. Short-term interest rates, which can be varied more frequently, are the essential instrument of monetary policy. They will continue to be maintained at levels neces-



Ranges for the later years are illustrative, but show a decline consistent with the declining path for money GDP growth.

If the underlying growth of MO threatens to move significantly outside its target range in 1987-88 there is a presumption that the Government will take action on interest rates unless other indicators clearly suggest that monetary conditions remain satisfactory.

Broad money has been growing considerably faster than money GDP in recent years. In money GDP in recent years, interest rates have been added to the attractiveness of financial assets in general, and the end of overfunding in 1985 has contributed. But perhaps most important, the increasing competition in financial markets in recent years has led to rapid growth of private sector liquidity and borrowing.

Private sector borrowing has been rising and is now over 10 per cent of GDP. It has clearly contributed more than public borrowing to upward pressure on real interest rates. These trends are likely to persist, so that broad money growth may continue at around its recent rate, well in excess of the growth rate of money GDP.

The 1986 Building Societies Act marks a further step in the evolving status of building societies. As their behaviour becomes closer to that of banks, wider aggregates which include building societies liabilities are likely to continue to be slightly less erratic than M3.

Both the Chancellor and the Governor of the Bank of England have drawn attention to the increasing difficulties in interpreting changes in broad money. With rapid and pervasive changes in financial practices, there is no simple relationship between broad money growth and money GDP. For this reason, the Government has decided that there should be no formal target for broad money in 1987-88. But the rate of growth of broad money cannot be ignored, and the Government will continue to take into account in assessing monetary conditions.

Fiscal policy: The PSBR in 1986-87 is expected to be about 1 per cent of GDP. This is appreciably less than was set at the time of last year's Budget.

Money GDP at market prices in 1986-87, the PSBR was reduced sharply in 1986-87 and has come down further in 1986-87. Even if privatisation

proceeds are added back, it has been lower as a share of GDP in the past two years than at any time since 1971-72.

As usual, the fiscal projections for the next four years set out in the accompanying tables take account of the position of receipts and expenditure. The path of the PSBR is below that shown in last year's MTFS.

The buoyancy of revenues has enabled the Government to achieve its long term objective for the PSBR sooner than would otherwise have been the case.

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As usual, the fiscal projections for the next four years set out in the accompanying tables take account of the position of receipts and expenditure. The path of the PSBR is below that shown in last year's MTFS.

The PSBR for 1987-88 is set at 2.4bn, or 1 per cent of GDP, the same as the expected outcome in 1986-87. North Sea revenues in 1987-88 are forecast at about 2.5bn, slightly lower than in 1986-87. The proceeds from the Government's privatisation programme are expected to be 2.5bn, as set out in the Autumn Statement.

The PSBR is projected to remain at 1 per cent of GDP thereafter. If privatisation proceeds are added back the ratio gradually falls from 2 per cent in 1987-88 to 2 per cent in the final year. The PSBR to be set in future Budgets for the year ahead will be reviewed in the light of circumstances at the time.

For the period to 1989-90, the public expenditure projections in the accompanying table follow the plans set out in the public expenditure white paper (Cm 56). It is provisionally assumed that the planning total will grow by 1 per cent in real terms in 1990-91. Decisions on the planning total for that year will be taken in the 1987 survey.

The definition of revenue in the accompanying table is based on the conventional assumptions of the 1987-88 tax and national insurance contribution rates, and allowances and thresholds indexed from the proposed 1987-88 levels. All changes proposed in the Budget are taken into account.

The assumptions about output growth and inflation that underlie the revenue projections are shown in the accompanying table. They are consistent with the figures for money GDP growth. Oil prices are assumed to average \$15 a barrel in 1987-88, and thereafter to remain

broadly unchanged in real terms. Public expenditure: Continued restraint in public spending is a vital element of the Government's economic strategy. General government expenditure has fallen steadily as a proportion of GDP from its peak of over 46 per cent in 1983-84. The plans in the white paper imply a continuing fall in this ratio. This will enable a low level of borrowing to be combined with reductions in the burden of taxation, so improving motivation, efficiency and employment.

Revenues: Over the period as a whole, non-North Sea revenues are assumed to grow broadly in line with non-North Sea money GDP. Government revenues from the North Sea, however, are expected to remain more or less unchanged in cash terms, in the accompanying table. Thus total general government receipts are projected to increase somewhat less than money GDP.

Public sector borrowing: The projections of government expenditure and receipts are brought together in the accompanying table to provide projections of the general government borrowing requirement (GGBR), the PSBR and the fiscal adjustment.

Conclusions: Events both at home and abroad may modify some of the assumptions on which the projections have been based. But the Government is committed to maintaining a steady growth of public expenditure as a share of GDP and lower taxes in the medium term. The MTFS provides the framework within which the financial policies to achieve this are set.

Public expenditure planning total* 1986-87 1987-88 1988-89 1989-90 1990-91

General government expenditure 158.6 166 174 180 188 196

General government receipts 151.9 169 169 178 187 197

Fiscal adjustment from previous year† 6.7 6 5 5 6 6

Annual fiscal adjustment‡ 6.9 6 5 5 6 6

GGBR 1986-87 1987-88 1988-89 1989-90 1990-91

Public corporations' market and overseas borrowing -1.1 -2 -1 -1 -1

PSBR 3.8 4 4 4 5

Money GDP at market prices 1986-87 1987-88 1988-89 1989-90 1990-91

PSBR as per cent of GDP 1.6 1 1 1 1

* Rounded to the nearest £1bn from 1986-87 onwards. Classification changes since the 1985 PSBR and about £2bn a year to both expenditure and receipts. The main change is in respect of the treatment of central government VAT refunds.

† Includes changes in debt interest and other items. The allocation of VAT receipts between North Sea and other is affected by the allocation of advance corporation tax.

‡ The allocation of advance corporation tax is included in the planning total and in the PSBR, but not in general government expenditure.

§ Public corporations' market and overseas borrowing is included in the planning total and in the PSBR, but not in general government expenditure.

¶ The planning total is assumed to grow by 1 per cent in real terms in 1990-91.

‡ See paragraph 6.04.

§ General government expenditure, and its components, are rounded to the nearest £1bn from 1986-87 onwards.

¶ Proceeds are assumed to be the same in cash terms in 1990-91 as in 1989-90.

REVENUE AND EXPENDITURE

Changes from 1986 MTFS projections, £bn 1986-87 1987-88 1988-89 1989-90 1990-91

Expenditure	1986-87	1987-88	1988-89	1989-90	1990-91
1 Planning total	+0.2	+1	+4.1	+5	+8
2 Other†	+0.5	-	-1.1	-0.1	-
3 General government expenditure	+0.6	+1	+3.1	+5	+8
Receipts					
4 North Sea taxes	-0.1	-1.1	-	-0.1	-
5 Other taxes and contributions	+1.8	+3.1	+4.1	+5.1	+6.1
6 Other‡	+0.1	+1	-	-1	-1.1
7 General government receipts	+1.8	+3	+4.1	+4	+5
8 Implied cumulative fiscal adjustment	-	-	-2	-3	-4.1
9 Public corporations' market and overseas borrowing	+0.1	-1	-	-0.1	-0.1
10 PSBR	-1.1	-3	-3	-2	-2

* Rounded to the nearest £1bn from 1986-87 onwards. Classification changes since the 1985 PSBR and about £2bn a year to both expenditure and receipts. The main change is in respect of the treatment of central government VAT refunds.

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PSBR 3.8 4 4 4 5

Money GDP at market prices 1986-87 1987-88 1988-89 1989-90 1990-91

PSBR as per cent of GDP 1.6 1 1 1 1

* Rounded to the nearest £1bn from 1986-87 onwards. Classification changes since the 1985 PSBR and about £2bn a year to both expenditure and receipts. The main change is in respect of the treatment of central government VAT refunds.

MONEY GDP GROWTH*

Year	1986-87	1987-88	1988-89	1989-90	1990-91
Projected	6	6.5	6	5	4

* Per cent change on previous financial year. The figure for 1987-88 is a forecast, and is subject to change when the figures for 1986-87 are available.

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GROWTH OF M3*

Year	1986-87	1987-88	1988-89	1989-90	1990-91
Projected	6	6.5	6	5	4

REVENUE CONSULTATIVE DOCUMENT

Review announced of avoidance in company share schemes

AFTER the Chancellor set down the following statement was issued by the Inland Revenue on employee share schemes.

The Chancellor has announced a review of section 79 of the Finance Act 1972 in the light of which he will consider whether it is possible to bring forward proposals for improving and simplifying this legislation consistent with its underlying purpose. This note explains the representations from companies, their advisers and professional bodies with an interest in this matter.

Section 79 is an important anti-avoidance provision. It is concerned with the situation where companies pass to their employees benefits in the form of share or share related rights—rights which in reality are part of the employee's remuneration, but which are dressed up as capital—and so seek to avoid the charge to income tax on that remuneration. For this purpose it charges to income tax any growth in the value of shares (or an interest in shares) acquired by employees or directors by reason of their employment where the shares are subject to certain kinds of restriction, or are of a class which is not widely available other than to the employees. The section also brings into tax certain other benefits which employee shareholders may receive from the company in respect of the shares, where those benefits are not otherwise chargeable to income tax. But it does not in general affect normal shares in which employees or directors invest on normal terms.

There have, however, been numerous representations about the operation of section 79. It has been criticised for its complexity and for the fact that the provisions are too wide-ranging, and penalise bona fide arrangements. Others suggest that the provisions are in some respects in need of tightening up. The aim of the review is to conduct a thorough review of the section, and to consider the scope for improvement and simplification consistent with its

underlying purpose. The review is to be carried out by the Inland Revenue with the assistance of a small informal group of outside practitioners who have expertise in this area, and with the benefit of views and suggestions received in response to the consultative document. If the review indicates the need to bring forward proposals for change, the intention, time permitting, would be to issue a further consultative document with draft clauses if possible.

Background. Section 79 had its origin in a need to counter a variety of share incentive arrangements which were developed in the 1960s to confer benefits on directors and employees free from income tax. These were becoming widespread and there was a prospect of very considerable tax avoidance. It was, therefore, considered necessary to introduce legislation which was specifically designed to counter such avoidance. The original provisions have subsequently been extended on a number of occasions to counter the use of more sophisticated avoidance devices that have emerged from time to time.

The section applies where employees or directors ("employees") receive shares by virtue of their employment. But it does not apply to shares which they acquire as ordinary investors. Nor, with certain very limited exceptions, does it apply to shares acquired under an option to acquire shares or share option scheme.

The section focuses on two main situations, viz: (a) Where the shares in question are subject to certain special restrictions, of a kind that might be used initially to depress the value of the shares, but which could later be removed, thus restoring the value of the shares to that of the company's shares in general issue and thereby giving the employees an essentially artificial benefit. (b) Where the shares are of a class which is not widely available other than to the employees, and which could be used by the company to provide the employee shareholders with special benefits.

The main charge, on the growth in value of such shares, arises either seven years from the date of their acquisition, or earlier, when they are disposed of or the restrictions are removed. The charge applies to the acquisition of shares, and to the acquisition of an interest in shares (for example, an interest in shares held on a trust), but not to the holding of options over shares (gains on the exercise of which are chargeable under separate statutory provisions). There are two major exemptions from the growth in value charge, designed to exclude from its ambit what are essentially "normal" shares acquired on "normal" terms. There is no growth in value charge where, immediately after the acquisition, the shares are not subject to any of the prescribed restrictions (or exchangeable for shares subject to such restrictions) and one or other of the following tests is satisfied.

1. The "majority test", which requires that the majority of shares of the same class, excluding shares held by or for the benefit of an associated company, must have been acquired by present or past employees or directors of the company concerned (or of a subsidiary), and who as holders of those shares were able to control the company.

2. The "control test", which requires that the majority of shares of the same class (again excluding shares held by or for the benefit of an associated company) must have been acquired by present or past employees or directors of the company concerned (or of a subsidiary), and who as holders of those shares were able to control the company.

Where either of the above tests is satisfied, and the shares are not subject to the defined kinds of restriction, there is unlikely to be scope for abuse. For example, the majority test is likely to deter companies whose real aim is to confer special benefits on their employees because of the greater cost to them of having to give similar benefits to all shareholders as well as to the benefit to the employees to be exempt from tax under section 79. As regards the control test, it would clearly be wrong to penalise employees

of companies whose share structures were designed intentionally to keep control in the hands of the employees and directors. But they would not in those circumstances be able to satisfy the "majority test" and so the "control test" provides an alternative basis for exemption. This latter test similarly acts as a safeguard against abuse—if the employees have majority control there is unlikely to be any advantage in shifting value from one share held by an employee to another such share.

Some possible changes for consideration. Many criticisms are of a general nature. The section has, for example, been criticised for being too complex; though others have questioned whether this is unavoidable given the diversity and complexity of arrangements that may be adopted in practice and which it has to cover. Others have suggested that it is too restrictive, and others again say that it is not restrictive enough. While general criticisms of this kind need to be considered carefully it will clearly also be desirable to try to focus in the review on specific points of difficulty and on possible solutions for dealing with them.

One suggestion that is sometimes made is that the section should be replaced altogether with provisions specifically designed to operate only in cases where there is avoidance or abuse. There is a number of provisions in the existing tax code based on some kind of motive or abuse purpose test. Experience suggests, however, that such tests are in practice not easy to operate and carry significant compliance costs for all concerned. There could be particular difficulty and uncertainty where (as in a number of types of situation discussed in this note) the nature of the transaction will only be clear in the light of the years after the employee or director has acquired it. An important point for consideration, therefore, would be whether—in the interests of taxpayers and the Revenue alike—it was better for the rules of the necessary anti-

avoidance provisions to be certain and clear cut, rather than being based on this kind of test or on Inland Revenue discretion. A second suggestion—in this instance for limiting the scope of the charge—concerns the case where the shares are subject to the defined kinds of restriction. The suggestion is that, perhaps on election of the employee, the charge on growth in value of the shares over a period should be replaced by an immediate charge, at the time of acquisition, based on the difference between the unrestricted market value of the shares and their cost to him. This, it is argued, would be more equitable in cases where the restrictions in question have an insignificant effect on the value and where at present all of the subsequent growth in value on the shares (not just that associated with the restrictions) is chargeable on growth tax under section 79(4).

In exploring this approach a number of issues would need to be considered. For example, not all restrictions are of the kind that would necessarily depress the value of the shares at the time of their acquisition—their effect, rather, might be to allow the shares to grow in value by more than other shares of the same class. The approach adopted would obviously need to be effective in dealing with this kind of situation as well. It might also be difficult to quantify with any precision the extent to which the value of the shares on acquisition has been depressed as a result of the particular restriction in question. Again it would be necessary to devise workable solutions to this problem.

Another area of difficulty some have experienced with section 79 concerns shares acquired by employees in a company that is a subsidiary of another company. In this case, and even if the shares are not subject to any of the defined restrictions, the employees will not be able to satisfy the "control" test mentioned at paragraph 8 above, nor often in practice will they be able to satisfy the alternative

"majority" test. Generally speaking, therefore, section 79 is likely to apply to shares in a subsidiary company acquired by its employees under an approved scheme—even if there is no abuse. The position of a subsidiary company's employees in relation to section 79 is obviously, therefore, another area for consideration in this review. One difficulty, of course, is that it is precisely where there is a parent/subsidiary relationship that the potential for abuse is at its greatest. The aim, therefore, will be to seek ways of targeting the charge more narrowly on cases involving actual abuse, but which do not at the same time impose excessive administrative and compliance burdens on companies concerned.

It has also been suggested that the provisions can cause difficulties in relation to some management buy-outs, or on a reconstruction or merger of companies. It is said that the section can place constraints on the structure which may be used in such reorganisations. Others may feel, however, that this would be unduly restrictive and perhaps not always practicable anyway. One alternative, therefore, might be an approach targeted in some way on the particular kind of arrangement that might be employed where the object was to satisfy the tests only temporarily in order to qualify for exemption. (This assumes of course that it would be possible to identify the kinds of arrangement in question and to distinguish them from other bona fide arrangements.)

Comments and suggestions are invited on the above points, and more generally on the scope for improving and simplifying section 79 of the Finance Act 1972 consistent with its underlying purposes. Comments are invited as soon as possible, and not later than May 31, 1987. Respondents are asked to address their comments in writing to Inland Revenue, Policy Division (1/4), Room 48, New Wing, Somerset House, London WC2R 1LB.

Exchange of share option planned for employees in takeovers

AFTER the Chancellor set down the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to make it possible for employees in a company which is taken over to exchange their existing share options under an approved scheme for options over shares in the acquiring company.

In addition, and as already announced, certain technical changes are proposed to the "material interest" provisions that apply to employees and directors in close companies. These changes will, among other things, facilitate the smooth running of approved share and share option schemes. Exchange of options under approved schemes.

When a company with an approved share option scheme is taken over by another company, it may be possible for employees of the target company to exercise their options prematurely, or to continue to hold them to maturity, depending upon the provisions of that particular scheme's rules.

At present, however there is no statutory provision that would enable the employees of the target company to exchange their existing options for ones over shares in the acquiring company. The change proposed will make this possible in future, subject to certain conditions.

This change—which meets representations on the point—will help where the acquiring company wishes to encourage the employees of the target company to continue to work for the success of their company in its new circumstances. The new provisions will be to the new corporate parent as well as to the target company. The proposed facility will be available on the footing that scheme participants will be no worse off and no better off than if the takeover had not occurred, and they had simply continued with their existing options over shares in the target company.

To qualify, therefore, the replacement options will have to continue to be governed by the rules of the target company's existing scheme (so ensuring, for example, that the replacement options will be subject to the same conditions which they had hitherto enjoyed). A further condition will be that, at the time of the exchange, the value of the options being given up must be equal to the value of the options being acquired.

Close companies: approved share schemes and interest relief.

This concerns some minor technical changes to the rules for deciding whether shares are held in a trust, an employee or director has a "material interest" in a close company, and consequently whether he can participate in an approved share option scheme, and obtain interest relief on loans for purchasing the company's shares.

The main proposals were announced on November 13 1986 by the Financial Secretary to the Treasury, Norman Lamont.

Some further small changes are also proposed. Shares held by the trustees of a Finance Act 1972 approved profit sharing scheme pending appropriation to individual employees will not be reckonable for purposes of the "material interest" test when determining eligibility to participate in any employee share scheme, or for other matters including interest relief. (The legislation has always been operated on that footing, but this proposal will confirm the position.)

In testing for approved share option scheme purposes whether an employee or director has a material interest in a close company, all options over shares in the company held by him will be reckonable as part of the test. This confirms existing published practice, and is for the avoidance of doubt.

One or two other minor changes are consequential upon those already announced.

Full details of all these proposals will be available in the Finance Bill.

Unapproved employee share schemes—review of Section 79, Finance Act 1972.

The Chancellor has announced a review of Section 79 of the Finance Act 1972—which contains wide-ranging anti-avoidance provisions relating to unapproved employee share schemes. The aim is to explore the scope for simplifying and improving the provisions, consistent with their underlying purpose.

The review will be carried out by the Inland Revenue with the assistance of a small informal group of outside practitioners who have expertise in this area. As a first step, views are being sought from all interested parties, and to this end the Inland Revenue yesterday issued a short consultative document.

PRT reliefs aimed at providing opportunities for offshore supplies industry

AFTER THE Chancellor set down the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget two further reliefs from petroleum revenue tax (PRT). These are designed to encourage developments in the North Sea to go ahead and so provide further opportunities for the offshore supplies industry. The proposals are:

- to allow up to 10 per cent of any qualifying development expenditure incurred in developing certain future fields to be offset against PRT liability in any field and
- to allow certain expenditure on oil related research which does not at present qualify for PRT relief to be offset against a participant's PRT liability.

Other measures of a more technical nature are also proposed.

10 per cent Cross Field Allowance (Item a).

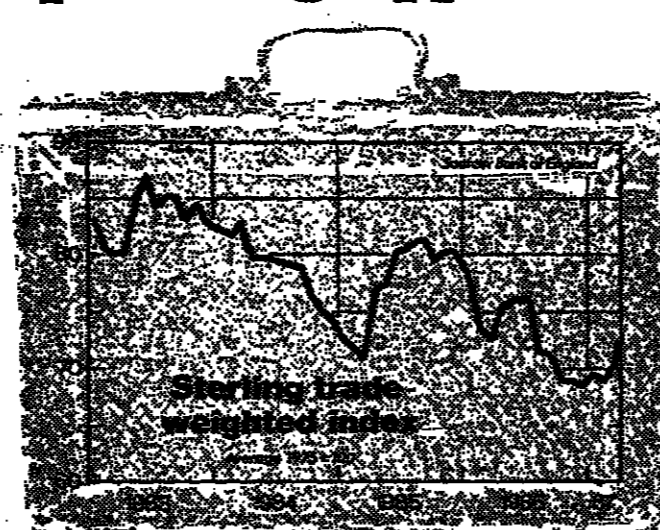
1. It is a feature of the petroleum revenue tax that participants generally get full relief for expenditure on a new field as soon as its income stream begins. But, apart from certain exploration and appraisal expenditure, the cost of developing an oil field can be claimed against the PRT liability only of that field itself. In the light of the current trough in orders for the offshore industry, the Chancellor now

proposes that a participant should be able to elect to set off up to 10 per cent of his qualifying expenditure incurred on or after January 1 1987 in developing a new offshore field outside the Southern Basin immediately against his PRT liabilities in another field. Qualifying expenditure is broadly expenditure agreed as qualifying for supplement in the field for which it was incurred.

This new relief, which will apply to such fields for which development consent is first given on or after today, will improve the post-tax economics of new developments and so encourage companies to proceed with projects which might otherwise be delayed.

PRT Relief for Certain Research Expenditure (Item b).

2—Under the present PRT field basis rules, relevant research expenditure is allowable for PRT against the income from the field for which the expenditure was incurred. But some such expenditure, though incurred in the general purposes of oil extraction activities in the United Kingdom or on the United Kingdom Continental Shelf (UKCS), cannot properly be regarded as incurred for the purposes of a particular field. Under the proposed measure, expenditure on UK/UKCS oil related research incurred on or after today, which has not become allowable in a particular field within three



years of being incurred, will be allowable against a participant's PRT liability in any field. This will bring the scope of PRT relief for research expenditure more closely into line with that for corporation tax. It will encourage general research, in particular, in the ways of reducing the cost of developments, and so make it more likely that new projects will be undertaken.

3—Both these measures will enable companies to plan and act in hand now new activity in the expectation of tax relief. Because of the lead times in the oil industry, but it is possible, over time, for the par-

ticipants' cumulative shares of allowances to get out of step with their cumulative shares of PRT. This is already some years in the last period for which any allowance is due, but the margin for adjustment may not always be sufficient. The Chancellor therefore proposes to allow participants further scope to balance their share of oil allowance through reallocation in the last two periods of oil allowance utilisation. The new rule will apply for chargeable periods ending on or after June 30 1987. Adjustment of ineffectively allowed PRT Expenditure Reliefs.

4—A defect will be remedied in the rules for putting matters right where either too little or too much expenditure on such items as exploration and appraisal has been allowed. Advances will be made.

5—A company's oil extraction activities in the UK and on the UKCS are separated by a "ring fence" for corporation tax (CT) purposes from its other activities. The relevant law includes rules which govern the way in which advance corporation tax (ACT) can be set against CT on ring fence income. The Chancellor proposes to amend these rules in a number of ways to make them more appropriate to current circumstances.

6—There are restrictions in Section 18, Oil Taxation Act 1975, on the extent to which a

subsidiary company can offset allowances to get out of step with their cumulative shares of PRT. This is already some years in the last period for which any allowance is due, but the margin for adjustment may not always be sufficient. The Chancellor therefore proposes to allow participants further scope to balance their share of oil allowance through reallocation in the last two periods of oil allowance utilisation. The new rule will apply for chargeable periods ending on or after June 30 1987. Adjustment of ineffectively allowed PRT Expenditure Reliefs.

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10—The opportunity will be taken to make it clear that the carrying back of ACT cannot give rise to repayments of ACT under certain repealed provisions.

11—Lastly, in the light of the changes proposed on the corporation tax treatment of capital gains, the provisions in Section 16 of the Oil Taxation Act 1975, which restrict the set off of ACT against CT liability in respect of ring fence activities, will be amended to cover capital gains on farmouts within Section 79 Finance Act 1984. Valuation and pricing.

12—The Finance Bill will also contain provisions for implementing the strengthening and updating of the Petroleum Revenue Tax rules for valuing and pricing oil already announced.

which have nothing to do with activities within the ring fence. The Chancellor proposes a measure along the lines of the rule which already exists for loan capital. ACT on dividends paid on or after today in respect of preference share capital issued by a company under the control of another UK resident company will not be available for offset against ring fence CT unless the capital can be shown to have been applied by the company in carrying on its ring fence activities. This measure will not inhibit any financing arrangement which is for the company's UK or UKCS oil extraction activities.

13—The opportunity will be taken to make it clear that the carrying back of ACT cannot give rise to repayments of ACT under certain repealed provisions.

14—Lastly, in the light of the changes proposed on the corporation tax treatment of capital gains, the provisions in Section 16 of the Oil Taxation Act 1975, which restrict the set off of ACT against CT liability in respect of ring fence activities, will be amended to cover capital gains on farmouts within Section 79 Finance Act 1984. Valuation and pricing.

15—The Finance Bill will also contain provisions for implementing the strengthening and updating of the Petroleum Revenue Tax rules for valuing and pricing oil already announced.

Inspectors' discretion to apportion income of close companies removed

AFTER the Chancellor's speech the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to remove the Inspector's discretion to apportion income of a close company to its shareholders. Until recently the Revenue had believed that the existing legislation obliged the Inspector to make apportionments except where the amount of tax involved was small. However, in a case last year that the Court of Appeal had said that the proposed change means that the Inspector will be required to apportion except where the amounts involved are small. Covenanted payments to charity (and other annual payments).

An Inspector may also apportion covenanted payments to a charity (and other annual payments) made by a close company. The Court of Appeal had held that the Inspector had a discretion whether or not to make such an apportionment. Here too the Chancellor proposes that the Inspector will be obliged to make an apportionment except where the amount of tax involved is small. However, from 1986-87 onwards (following changes made in last year's Finance Act), the apportionment rules do not in practice affect payments under covenants by close companies to charities except where the charity itself fails to meet the conditions for tax exemption on the income. Certain associated discretion-

ary powers in the apportionment legislation will be similarly dealt with.

The change will apply to accounting periods beginning on or after January 1 1987. The Inspector will exercise his discretion with the assistance of guidelines which have been published today as an Inland Revenue Notice (FR 2/87, a copy of which is attached).

On the issue of close company apportionment, the Inland Revenue gave the following guidelines to Inspectors on the exercise of their discretion with paragraphs 1 and 3 of the Finance Act 1972. It was established in R v Sampson (HM Inspector of Taxes) and another, Ex Parte Lansing Bagnall Ltd that the use of "may" in paragraphs 1 and 3 of the Finance Act 1972 conferred on the Inspector a discretion as to whether to apportion the income or annual payments of a close company. Inspectors may welcome guidance on how these discretions may be reasonably and properly exercised. These notes are intended to provide assistance and to endeavour to ensure, so far as it is possible, that there is consistency of treatment. They are, however, only guidelines. The discretions in paragraphs 1 and 3 are conferred on the Inspector personally and he cannot be directed how to exercise them. It will provide a context for the exercise of these discretions if the purpose of paragraph 1

and paragraph 3 is considered. The purpose of paragraph 1 was described by Lord Roskill in the House of Lords in Wilson and Carden v CIR 56 TC 79 at page 121 as "to prevent the accumulation by close companies of undistributed profits which are in truth income and thereby the conversion of what is in truth income into tax free capital." The purpose of paragraph 3 is considered to be aptly described in the judgment of Stamp LJ in C. & J. Clark Ltd v CIR 50 TC 103 at page 114 where he said: "you could not so organise your affairs through the medium of a company so as to escape the ambit of surtax on payments under a covenant made by the company to charity which would not be allowable as deductions in computing your income for the purposes of surtax if you yourself had made the payments under covenant."

Parker LJ expressed himself similarly in relation to the paragraph in Lansing Bagnall. The tenor of what he said is stated in paragraph 19 below. In the case of both paragraphs 1 and 3, it is considered that the exercise of the relevant discretion is subject to the duty of fairness to and between taxpayers discussed in IRC v National Federation of Self-Employed and Small Businesses Ltd [1982] AC 617. It was accepted by Parker LJ in Lansing Bagnall that this duty applied in relation to the discretion conferred by paragraph 3 and it is thought that it must equally apply in relation to that conferred by paragraph 1.

The Inspector may think that he should not exercise the powers conferred in paragraphs 1 and 3 where the amounts involved are not worth pursuit.

The discretions conferred by paragraphs 1 and 3 are wider than the discretion derived from the Board's care and management powers under Section 1 of the Taxes Management Act 1970 which is solely concerned with good management. Nevertheless it may be considered appropriate to take into account good management in the exercise of the discretions under paragraphs 1 and 3. It would not be good management to pursue trivial amounts or even substantial amounts if the costs of collection were going to be disproportionately high and collection itself uncertain. As indicated above, the more general discretions in paragraph 1 and 3 would allow the Inspector to take a broader view of what amounts were worthwhile than the duties of good management in which the Inspector might decide, particularly bearing in mind the elaborate procedures of apportionment, that the amounts involved were not large enough to justify proceeding further.

Another matter which might be taken into account by an Inspector in the exercise of his powers in paragraphs 1 and 3 is the fact that apportionment was not considered in past years because of Revenue oversight. Here again the Inspector may wish to have regard also

to the duty of fairness to other taxpayers, for example, participants in companies which had their income apportioned each year. The amounts involved may also be a material consideration.

The Inspector might also decide not to apportion where there were special factors in the particular case. An example of this might be where very late in its accounting period an open company became close. Another, perhaps, is where it had been thought the company was open and it was found to be close only because of the very wide rules of association in Section 303(3) of the Taxes Act.

In Lansing Bagnall it was held that an Inspector is bound to consider any representations made on behalf of the company as to why the Inspector should not apportion in its case. It would be for the Inspector to decide what weight, if any, should be given to such representations. It is not felt that the Inspector is bound to invite representations but they may well be made when either clearance is being sought or the accounts are submitted.

In the event of uncertainty as to the proper exercise of discretion in paragraph 1 the Inspector may seek the advice of his head office.

There are other paragraphs in Schedule 18 which confer on the Inspector discretionary powers, for example paragraph 1(4), paragraph 2 and paragraph 4. The discretion con-

ferred by these paragraphs will be exercised at the Close Companies Apportionment Unit. The Board has decided that all cases arising under paragraph 3 Schedule 18 Finance Act 1972 will be dealt with by the Close Companies Apportionment Unit.

There are certain factors and circumstances which have no relevance for paragraph 1 in which the Court of Appeal in Lansing Bagnall considered an Inspector might have regard when determining whether to make an apportionment in respect of annual payments within paragraph 3.

One such circumstance is where the company covenants to particular charities because its business and reputation would suffer if it did not do so. In such a case the participants themselves might wholly disapprove of the particular charity and never dream of contributing to it themselves. The Inspector might feel that in these or broadly similar circumstances there is a strong case for not making an apportionment, assuming that he has not already concluded that such payments would have been made wholly and exclusively for the purposes of the company's trade and so excluded from apportionment by paragraph 3 (2).

Another circumstance is where an open company which for good business reasons has been making covenanted pay-

ments becomes close. This was considered by Parker LJ to be a particularly relevant matter. Another factor which the apportionment was considered in respect of covenanted payments in earlier years. This is essentially the same point as Revenue oversight referred to in the separate part of paragraphs 1 and 3 but with covenanted payments Revenue oversight might itself have influenced the amounts covenanted in later years.

Finally, it was submitted to the Court that it would be relevant to compare the nature and amount of the covenanted payments made by the close company with those made by open companies of similar size. There are practical difficulties in making such comparisons. The comparison should presumably be made with a reasonable number of comparable open companies. Conceivably the type of business carried on and the circumstances in which covenanted payments were made would also be relevant considerations.

While it is right that the Inspector should have regard to these factors to which the Court has drawn attention, the actual weight, if any, he attaches to them is wholly a matter for the Inspector. The guiding principles should still be to be fair as between taxpayers and to the individual taxpayers concerned on the basis that the object of the legislation is not to penalise the participants in close companies but to see that they do not, by reason of their position as such, obtain an unfair advantage over others.

THE BUDGET: Details

Rules standardised on corporation tax payment dates

AFTER THE Chancellor sat down, the Inland Revenue issued the following statement:

The Chancellor proposes to standardise the rules relating to the date on which corporation tax is payable by companies, other bodies liable to corporation tax and building societies. The intention is that, after a transitional period, in all cases corporation tax will be payable nine months after the end of the accounting period for which it is chargeable.

The standardisation of payment intervals in this way will put all companies and building societies on an equal footing. It will, therefore, simplify and rationalise the present payment arrangements and thus is in

keeping with the broad objectives of the 1984 company tax reforms.

It will also prevent an abuse by which a company has been able to delay payment of tax on its profits. It has been able to do this by taking over a company which has a longer payment interval and transferring its activities to it. The longer payment interval then applies to the tax on all the profits of the company taken over, including those arising from the activities transferred to it, so giving the company an enduring timing advantage. Standardisation of payment intervals at nine months will prevent the abuse with its potentially very significant cost to

the Exchequer. Companies (and other bodies):

At present the date on which corporation tax is payable by companies varies from nine to 21 months after the end of the accounting period for which it is chargeable. The Chancellor proposes to standardise the payment interval at nine months for all companies. The change to the new payment date will be phased in over a period of three years during which the payment interval will be reduced to nine months in three equal steps. These transitional arrangements will begin with a company's first accounting period starting on or after Budget day.

The rules will be modified

where a company has an accounting period of less than 12 months.

Building societies: For building societies with payment intervals of more than nine months, the arrangements will be the same as for companies.

Some building societies have payment intervals of less than nine months. For these the transitional arrangements will be different. The transition will normally be spread over a period of up to two years, starting with accounting periods ending in the 1988-89 tax year. For these accounting periods a society's payment interval (under Section 344(2) (a) of the Income and Corporation

Taxes Act 1970) will be extended to two months (where it would otherwise be shorter); and for accounting periods ending in the following year, the interval will be extended to nine months. These special arrangements are designed to ensure there is no cost to the Exchequer in any year during the transitional period from the standardisation of payment intervals.

In some cases the existing rules for building societies require a society to pay corporation tax before the end of its accounting period. Typically, where a society has a payment interval of less than nine months its corporation tax is due on January 1 in the tax

period ends. However, its accounting period might not end until later in the tax year (for example, January 31). To take account of this there is a special provision (Section 344(2) (b) of the Income and Corporation Taxes Act 1970) which provides for a provisional payment of corporation tax, typically on January 1, with the final liability being calculated later. Once societies have moved to a nine month payment interval, these provisions will cease to apply. But for accounting periods ending in the tax year 1989-90, the due date for the provisional payment will be two months after the end of the accounting period, if it would otherwise be earlier.

The due date for payment of tax chargeable under Section 285 ICTA 1970 (close companies' loans to participants etc) will be 14 days after the end of the accounting period, rather than on the first day after the financial year in which the loan was made. Interest on the loan will be payable on the day on which the loan is repaid.

Special provision will be made for certain special cases where the normal Pay and File rules on interest for late payment would produce an inequitable result.

Inheritance tax starting point to rise by £19,000

AFTER THE Chancellor sat down the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget:

● to raise the starting point for inheritance tax (IHT) from £71,000 to £90,000

● to simplify the rate structure by replacing the present 7 rates of tax with 4

● to extend exemption for lifetime gifts to certain gifts involving interest in possession trusts

● to increase business relief for substantial minority shareholdings in unquoted companies

● to treat USM holdings as fully quoted for all IHT purposes

● to improve the tax arrangements for the protection of heritage property.

Thresholds and rates of tax:

The Chancellor proposes to increase the starting point for inheritance tax from £71,000 to £90,000, and to replace the present 7 rates of tax with 4.

The proposed scale and the existing scale are shown in the table.

The revised scale is to apply to transfers on or after March 17, 1987. These changes are more generous than the increases that would have resulted from the requirement for statutory indexation. Under that provision, the starting point and thresholds would have been increased by 3.7 per cent—the increase in the RPI for the year to December 1986.

● to make the starting point for paying IHT £74,000.

Interest in possession trusts:

The Chancellor proposes to abolish the existing IHT charge on transfers made more than seven years before death in cases involving interest in possession trusts. Transfers to discretionary trusts and transfers involving companies remain liable to an immediate charge at half the full rate. The proposal applies to transfers made on or after March 17, 1987.

Transfers into trusts:

No immediate lifetime charge on a gift made by an individual if the gift is into a trust under which another individual has a beneficial interest in the property.

The transfer of trust:

No immediate lifetime charge on a disposal or termination of an individual's beneficial interest in possession in trust property if on that event another individual becomes beneficially entitled to the property in which the interest subsisted, or to an interest in possession in that property; or that property becomes subject to an accumulation and maintenance trust, or trust for the disabled; or the value of the trust property at the date of the transfer is increased.

Transfers within seven years of death:

Transfers made within seven years of death will generally remain taxable at a tapered rate; they will be potentially exempt transfers (PETs).

Anti-avoidance provisions:

The legislation will include measures to prevent the minimisation of the charge on transfers to discretionary trusts through the use of short-term interest in possession trusts.

The Chancellor proposes to increase from 30 per cent to 50 per cent the rate of IHT business relief on substantial minority shareholdings in unquoted companies. This new category of 50 per cent relief will apply to shareholdings of more than 25 per cent but not more than 50 per cent provided that the transferor has maintained a shareholding of over 25 per cent throughout the two years preceding the transfer on which relief is due.

The new rate of relief is to be available for transfers made on or after March 17, 1987.

Companies dealt in on the United States Securities Market (USM) will, to reflect the development of the USM, be treated for IHT purposes in the same way as shares in companies with a full listing on the Stock Exchange. This means that business relief will be available for shares in USM companies or those with a full listing only on the USM.

The increased rate of relief applies only to companies without a full listing or that are not dealt in on the USM.

The National Heritage:

The Chancellor proposes two measures to help to protect the national heritage.

Heritage Maintenance Funds:

Settled property will be exempt from the tax on the death of a person who has an interest in possession in the property—for example, a life tenant—if the terms on which the property is held are altered after his death so that it goes to a trust for the maintenance fund within two years.

A further year will be allowed if the alteration needs a Court Order. The exemption will apply to deaths on or after March 17, 1987.

The rules for the charges when property leaves a maintenance fund for non-hereditary purposes will be based on the accumulated chargeable giving of the former life tenant. This alteration will also apply to transfers of interest in possession property that entered the fund on the termination of that interest with the benefit of the existing maintenance fund exemption. The alteration will apply to charges arising on or after March 17, 1987.

Acceptance in lieu:

Acceptance in lieu of inheritance tax on other property will be given the option of having the offset against tax calculated by reference to the value of the property at the date of the offer instead of its value at the date of acceptance. Where this option is chosen, interest on the tax will cease to accrue from the date of the offer.

Details of the changes:

The Finance Bill to be published next month will give further details of these changes.

'Pay and file' scheme aims at streamlining administration

AFTER THE Chancellor sat down the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to introduce the legislative basis of a new scheme (referred to as "Pay and File") which when implemented will streamline the administration of corporation tax.

This proposal was identified for early consideration in the Consultative Document "The Inland Revenue and the Taxpayer," which was published on December 12, 1986 in response to the recommendations of the Keith Committee.

The introduction of Pay and File is part of a wider programme of modernising and streamlining tax collection, which includes major developments in the Inland Revenue's computer systems.

At present, many company accounts are not received in time to agree tax liability before payment is due. So there is a

laborious, costly and time-wasting process, criticised by the Keith Committee, of an estimated 400,000 appeals by the Inland Revenue, at appeal by the company, agreement on the amount of tax to be provisionally paid, and finally the submission of the accounts and settlement of the actual liability.

In 1986, the Revenue made some 650,000 corporation tax assessments, of which some 420,000 or 65 per cent had to be estimated and against some 400,000 of which appeals were lodged.

The committee's proposed solution—reducing the period for delivering accounts to six or seven months—was regarded as impracticable by representative bodies commenting on the committee's recommendations. Pay and File offers an alternative and practical solution.

DETAILS OF THE PROPOSAL: The Chancellor's proposals consist of:

The "Pay" element:

—A company will be required to pay corporation tax on a fixed date (9 months after the end of the accounting period), whether or not an assessment has by then been made.

—Interest will run from the same fixed payment date on any tax paid late by the company or tax repaid by the Revenue to the company.

The "File" element:

—A company will be allowed 12 months from the end of the period to which it makes up its tax accounts, in which to supply its return and those accounts.

—If it fails to send in the return and accounts within that time it will, unless it can show a reasonable excuse, incur an automatic flat rate penalty.

—If the return and accounts have not been supplied by 18 months after the end of the period in respect of which the return is due ("the return

period"), the company will incur an additional penalty of 10 per cent of the tax due but not paid at that time; this will increase to 20 per cent if the return is still outstanding two years after the end of the return period.

—These penalties will be chargeable by assessment, with the taxpayer having a right of appeal against the assessment.

These changes will take effect when the new Inland Revenue computer systems now being developed are operational. In the course of consultations, representatives of business and professional advisers emphasised the need on their side also for simple time to prepare for the new arrangements. The new payment, interest and penalty arrangements will accordingly not come in before January 1992.

Changes to the Pay and File proposals following consultation:

As a result of representations and consultations, these proposals differ from those set out in the recent consultative document in a number of ways:

—The late filing penalty for corporation tax returns and accounts, which has been criticised as too complicated, has been re-written. The new proposal is that:

The daily penalty in the published draft clause will be replaced by a simpler lump sum penalty of £100 if the return is made no more than 3 months late, increasing to £200 for a longer delay. A higher penalty would be charged for repeated failures.

The tax return penalty will come in 18 months after the end of the return period. It will initially be at a lower rate of 10 per cent of the tax then unpaid, but rise to 20 per cent if the return and accounts are still outstanding

two years after the end of the return period.

—The penalty assessing clause as published in the consultative document, which was originally drafted for a wide range of penalties, are being modified to apply for the present only to the corporation tax return late filing penalty.

The due date for payment of tax chargeable under Section 285 ICTA 1970 (close companies' loans to participants etc) will be 14 days after the end of the accounting period, rather than on the first day after the financial year in which the loan was made. Interest on the loan will be payable on the day on which the loan is repaid.

Special provision will be made for certain special cases where the normal Pay and File rules on interest for late payment would produce an inequitable result.

Simplifying and reducing the burden on small businesses

THE TREASURY issued the following statement after the Chancellor sat down: A number of measures in the Budget of particular importance to small businesses. The main changes are:

● The proposed reduction to 27 per cent of the rate of corporation tax for small companies for financial years 1987 (compared with a rate of 42 per cent in 1979).

● The proposed reduction in the basic rate of income tax for 1987-88 to 27 per cent, which will benefit the self-employed and partnerships.

● Optional cash accounting for VAT for businesses up to £250,000 turnover, which accounts for more than half of those registered for VAT. One of the key concerns of these businesses is the late payment of bills. This scheme will mean that they will not have to account for VAT until their bills have been paid. It will also give them effective bad debt relief.

● Optional annual accounting for VAT, for businesses up to £250,000 turnover. Under this scheme, businesses will have to complete only one VAT return per year, with nine advance payments on account.

● Extension of the time to notify liability to register for VAT from 10 to 30 days.

● Making the simpler retail schemes more widely available.

Other measures which will benefit small businesses include:

● Capital gains made by companies will be charged at the appropriate corporation tax rate, 27 per cent for small companies instead of 30 per cent. Companies will be able to offset ACT against tax liability on gains.

● The ceiling for retirement relief for capital gains tax will be increased from £100,000 to £125,000.

● New, simplified occupational pension schemes will help small employers to set up their own schemes.

● Changes to the Business Expansion Scheme will make it easier to raise equity finance throughout the year.

● The rate of business relief for inheritance tax will be increased from 30 per cent to 50 per cent for minority holdings over 25 per cent in unquoted companies (but minority holdings in companies quoted on the Unlisted Securities Market will be treated for all inheritance tax purposes like shares in companies with a full listing).

● The VAT registration threshold will be increased to

£21,900, keeping it at the maximum level allowed under current European Community law.

The VAT small business measures follow a consultation paper published in October 1986. They represent an improvement for businesses on the proposals in several important respects:

● The turnover limit for cash and annual accounting has been increased from the proposed £100,000 to £250,000.

● The proposal for compulsory deregistration of small businesses with a turnover below the registration threshold has been dropped.

● The proposal to withdraw the standard method of calculating gross takings by retailers has also been dropped.

These tax changes build on a large number of measures which have already helped small businesses since 1979, including cuts in the rates of corporation tax and income tax and the introduction of the Business Expansion Scheme. They represent a further significant step towards reducing both the burden of taxation and administrative burdens. They should give further encouragement to small businesses, to help them increase their profitability and expand.

Civil List Royalty's allowance to rise 4.5%

THE CIVIL LIST, the annual government payment to cover the Royal Family's official expenses, is to rise by 4.5 per cent, in line with inflation.

For the new financial year, the total goes up to £5,681,200 from £5,400,600. However, because the Queen contributes from her private funds to cover the expenses of the Dukes of Gloucester and Kent and Prince Alexander, the final total payable by the Treasury for the coming year will be £5,289,500, compared with £5,045,000.

More than 75 per cent of the Civil List allowance goes on salaries, to people ranging from the Queen's private secretary to palace cleaners. Apart from salaries, the main items are office stationery and supplies, running the royal kitchens, maintaining furnishings, cars and carriages, and staging Buckingham Palace garden parties.

The number of engagements undertaken by members of the Royal Family continues to increase, and the newest member, the Duchess of York, who does not figure separately in the list, is undertaking a full programme of engagements.

The Duchess's expenses are paid from the Duke of York's allowance, raised to £50,000 a year from his marriage in July last year.

Staff costs assume a 4.5 per cent pay increase from April 1, in line with government cash limits.

The full list (1986 figures in brackets). The Queen £4,326,100 (£4,136,800); The Queen Mother £375,500 (£359,100); The Duke of Edinburgh £209,300 (£200,300); Princess Anne £130,500 (£124,500); The Duke of York £50,000 (£33,300); Prince Edward £20,000 (£17,000); Princess Margaret £127,000 (£121,500); Princess Alice, Duchess of Gloucester £15,400 (£14,900); The Duke of Gloucester £109,200 (£97,200); The Duke of Kent £133,000 (£132,000); Princess Alexandra £131,500 (£125,800);

Company car scale charges raised 10%

THE INLAND REVENUE issued the following statement after the Chancellor's speech:

Income tax and VAT charges on kind, car and car fuel benefit scale charges 1988-89

The Chancellor proposed in his Budget that the scale charges or taxing company cars provided for directors or "higher-paid" employees will be increased for 1988-89 by 10 per cent.

No increase is proposed in the scales relating to fuel provided for private motoring in such cars, which, as announced last year, will also be used from April 1987 for VAT purposes.

Details of the car and car fuel benefit scales proposed for 1988-89 (1987-88 figures in brackets) where these are different are given in the accompanying tables. These summer.

also give examples of the amount of tax payable by a basic-rate taxpayer. (The basic rate of tax that will apply for 1987-88 in the Budget—27 per cent. The actual rate for 1988-89 may be different).

The proposed changes will affect the liability to tax of directors and those employees earning at a rate of £5,500 a year or more (including the value of any benefits etc), who by reason of their employment are provided with cars which are available for private use.

The taxable cash equivalents of company cars and fuel used for private motoring are contained in Finance Act 1976 and may be varied by Treasury order. It is proposed that orders increasing the car benefit scales will be laid before Parliament in the summer.

CARS WITH ORIGINAL MARKET VALUE UP TO £19,250 AND HAVING A CYLINDER CAPACITY

Scale Charges		Tax payable for 1988-89 (assuming basic-rate taxpayer and basic rate of 27p)	
Cylinder capacity of car in cc (centimetres)	Age of car at end of relevant year of assessment	Under 4 years or more	Under 4 years or more
1400cc or less	Under 4 years or more	585 (525)	516.60
1401-2000cc	Under 4 years or more	770 (700)	666.90
More than 2000cc	Under 4 years or more	1210 (1100)	1041.30

CARS WITH ORIGINAL MARKET VALUE MORE THAN £19,250

Scale Charges		Tax payable for 1988-89 (assuming basic-rate taxpayer and basic rate of 27p)	
Original market value of car	Age of car at end of relevant year of assessment	Under 4 years or more	Under 4 years or more
£19,250 or more but not more than £29,999	Under 4 years or more	1996 (1496)	1696.90
£30,000 or more	Under 4 years or more	2530 (2030)	2163.10

CARS WITH A RECOGNISED CYLINDER CAPACITY

Scale Charges		Tax payable for 1988-89 (assuming basic-rate taxpayer and basic rate of 27p)	
Cylinder capacity of car in cubic centimetres	Age of car at end of relevant year of assessment	Under 4 years or more	Under 4 years or more
Up to 1400 cc	Under 4 years or more	499	429.60
1401 cc-2000 cc	Under 4 years or more	699	602.60
More than 2000 cc	Under 4 years or more	999	854.60

CARS WITH ORIGINAL MARKET VALUE UP TO £19,250 AND NOT HAVING A CYLINDER CAPACITY

Scale Charges		Tax payable for 1988-89 (assuming basic-rate taxpayer and basic rate of 27p)	
Original market value of car	Age of car at end of relevant year of assessment	Under 4 years or more	Under 4 years or more
Less than £5,000	Under 4 years or more	589 (525)	516.60
£5,000 or more but less than £5,500	Under 4 years or more	770 (700)	666.90
£5,500 or more but less than £19,250	Under 4 years or more	1210 (1100)	1041.30

RANGE (£000s) TO WHICH TAX RATE APPLIES

Rate of Tax	Existing scale	Proposed scale
Nil	0-71	0-90
30	71-95	90-140
40	95-125	140-220
45	125-184	220-320
50	184-266	320-430
55	266-317	430-510
60	Above 317	Above 510

Higher indexed threshold for capital gains tax

AFTER MR LAWSON had finished speaking, the Inland Revenue issued the following statement on exempt threshold retirement relief for Capital Gains tax.

In his Budget, the Chancellor proposed a number of changes to capital gains tax. Two of the changes are:

1. An increase in the threshold in line with the Retail Prices Index. For 1987-88 an individual will be exempt on the first £5,600, and most trusts on the first £3,300 of gains (the present figures are £5,300 and £3,150 respectively).

2. An increase from £100,000 to £125,000 in the maximum amount of the relief available for those who dispose of their business on retirement at 60, or earlier on ill-health grounds.

This release gives further information about these proposed changes. The detailed provisions for retirement relief will be included in the Finance Bill.

Other proposals affecting capital gains are dealt with in the appropriate Press release. In particular, those concerned with corporation tax on the gains of companies and over-the-counter futures and options.

Over-the-counter options and futures:

The Chancellor proposes:

(i) To extend the capital gains tax treatment in section 72 Finance Act 1982 to certain over-the-counter financial futures and options. The main effect will be that profits on transactions in these futures and options will always be taxed as capital gains rather than as income. This will place the course of a trade. At present, they may in some circumstances be taxed as income.

(ii) To bring the capital gains tax treatment of over-the-counter financial options in line with that for traded options.

This release gives further information about these proposed changes. The detailed provisions will be included in the Finance Bill.

Stock Exchanges:

Consequent to the Finance Services Act 1986, the Chancellor proposes to introduce enabling power allowing securities traded on new stock exchanges established in the United Kingdom to be treated in the same way for tax purposes as securities traded on the existing Stock Exchange.

Unit trust rules to fit in with act

AFTER THE Chancellor sat down the Inland Revenue issued the following statement:

In his Budget, the Chancellor proposes to modify the tax rules which apply to authorised and unauthorised unit trusts. The main purpose of the changes is to adjust the tax rules to fit the new regime for unit trusts introduced by the Financial Services Act 1986.

The substance of the present tax treatment will not be altered. Details of the proposals:

The main modifications proposed are:

a Tax definitions of authorised and other unit trusts will be altered to match the new Financial Services Act definitions.

b Authorised unit trusts—technical changes will be made

to ensure that the income tax rules cater for trusts which take advantage of the freedom to invest in a wider range of securities (such as commodities, financial futures and options) which may be permitted under the FSA regime.

c Other unit trusts—i.e. unit trusts which are not authorised, and "gilt" unit trusts (authorised unit trusts investing only in fixed interest securities, which get the same income tax treatment as non-authorised unit trusts). To cater for developments which may occur in this sector under the new FSA regime:

—a statutory income tax framework will be introduced—this will have substantially the same effect as the existing treatment, which is based on general income tax law

and trust law (statutory rules are already in place for CGT and other taxes);

Custom and Excise statement on value added tax

Turnover level to be raised on cash accounting scheme

CUSTOMS and Excise issued the following details of the VAT package announced to assist small businesses:

Cash accounting
The Chancellor announced an optional scheme, open to all businesses with turnover below £250,000, whereby VAT would be accounted for on the basis of cash paid and received.

This scheme improves considerably on that proposed in the consultation paper VAT: Small Business Review, issued last October, in which the suggested turnover level was £100,000. Provided the necessary derogation under article 27 of the EC 6th VAT Directive can be obtained, it will be introduced on October 1 1987.

The Finance Bill will contain an enabling clause and draft regulations will be published in May to coincide with the standard committee's consideration of the bill.

Businesses wanting to use the scheme will be required to make an application to their local VAT office and, once approved, to remain in the scheme for two years. A leaflet explaining how the scheme will work will be available from local VAT offices in May.

Further information explaining how to apply will be sent out with VAT returns in the summer.

Annual accounting
The Chancellor announced an optional scheme of annual accounting. This scheme would be available to all businesses which regularly pay tax, have been registered for at least one year and have turnover below £250,000. Businesses choosing to use the scheme would make only one VAT return a year instead of the present four. They would make nine equal payments on account, by direct debit, and a tenth balancing payment with their annual return.

This scheme, too, improves considerably on that proposed in the consultation paper in which the suggested turnover limit was £100,000. It will be introduced in the summer of 1988 when the necessary computer reprogramming has been completed.

The Finance Bill will contain the necessary enabling clause, and draft regulations will be published in spring 1988.

A leaflet explaining how the scheme will work will be available from local VAT offices in May.

June. Invitations to use annual accounting will be included in this autumn's VAT notices.

Records and accounts
As announced in HM Customs and Excise news release number 437 VAT: Records, HM Customs and Excise have been appointed to conduct a review of the maintenance and preservation of VAT records and are due to report by the end of May.

The proposal to engage an independent consultant to conduct such a review was announced in Chapter 3 of the consultation paper.

Registration and deregistration requirements:

Mr Lawson announced that the time for notification to be registered for VAT was to be extended to 30 days; this is one of several changes which will be made to the registration process.

These changes will have effect from Royal Assent to the 1987 Finance Act.

The only modification made to the original proposals was, for technical reasons, the substitution of "30 days" for "1 month". In practice this will not be detrimental, as a fixed period of 30 days gives certainty, whereas a calendar month varies from 28 days to 31 days.

Discretionary registration
The discretionary registration of businesses with turnover below the registration threshold will continue unchanged. (It had been suggested in the consultation paper that businesses below the threshold should not be permitted to register, or remain registered for VAT.)

Retail schemes
The Chancellor announced changes to the special schemes for retailers. These are:

A new scheme, to be called Scheme B, will be introduced as an alternative to Scheme A. This new scheme will not have a "50 per cent rule", and no turnover restrictions will apply, but it will involve an annual stock adjustment.

Scheme B itself will remain unchanged.

Another adaptation to Scheme B, to be called Scheme B2, will be introduced to replace the existing "Adaptation 1".

This new scheme will no longer have a fixed mark-up of 14 per cent applying to all zero-rated goods received for resale; instead various increased but fixed mark-ups will be applied based on types of zero-rated goods. An annual turnover limit of £500,000 per annum will apply, in line with the proposal in the consultation paper.

The annual turnover limit for Scheme C will be increased to £20,000, while some of the fixed mark-ups applied to the different trade classifications will be revised.

As a result of representations made, some of the revised fixed mark-ups proposed in the consultation paper will be reduced. The annual turnover limit for Scheme D will be increased to £500,000. This is in line with the proposal in the consultation paper.

The current "Adaptation 2" will be replaced by an adaptation to Scheme E, to be called

Scheme E1.

As proposed in the consultation paper, this new scheme will operate in the same way as the old adaptation except that only the calculation of expected selling prices of standard-rated goods received for resale will be required.

The lower annual turnover limit for Scheme G will be abolished, while the 1 uplift, having been reviewed, will remain unchanged.

The How to work Scheme J pamphlet will be amended to include the available scheme J adaptations.

This is in line with the proposal in the consultation paper. The "standard" method of reckoning gross takings will remain unchanged for the present.

After considering the representations about this proposal, Ministers have decided that it should not be proceeded with for the present. The use of the standard method will, however, be allowed to enable them to make the necessary adjustments to their accounting systems. Further information on the changes will be available from local VAT offices in May.

Use of retail schemes will be withdrawn from non-retailers. Persons affected should consider whether they can use the scheme of cash accounting to be introduced on October 1.

Use of retail schemes in respect of non-retail supplies will be withdrawn.

Those persons making both retail and non-retail supplies will be able to use retail schemes for their retail supplies only.

Revenue effect of the package:
It is estimated that the total cost of these proposals will be £115m in 1987-88 and £20m in 1988-89.

On October 24 1986, Mr Peter Brooke, MP, the Minister of State at the Treasury, announced the publication by HM Customs and Excise of a consultation paper VAT: Small Business Review, which contained a package of value-added tax proposals designed to help small businesses. At the same time a question and answer leaflet was sent to a representative sample of 5,000 small businesses.

In total 192 responses were received to the consultation paper and 1,256 responses to the leaflet. The overwhelming majority of respondents welcomed both the small business review itself and the opportunity to participate. While generally supportive of the majority of the proposals, the responses also made suggestions for improvement and change.

The annual registration limit is being increased from £20,500 to £21,300 and the single quarterly registration limit is being increased from £7,000 to £7,250, from midnight yesterday.

Cancellation of registration:
The limit will be increased from £19,500 annually to £20,300 (inclusive of VAT) from June 1 1987 for persons considering cancelling registration on the basis of their expected future turnover.

Persons will also be able to apply for cancellation of their registration after June 1 1987 if they have been registered for two years and their turnover (inclusive of VAT) in each of those years has not exceeded £21,300 and provided they do not expect their turnover to go above £21,300 in the year then beginning.

An estimated 14,000 extra persons will be eligible to request cancellation of their registration as a consequence of these changes.

Detail of the changes in the registration and cancellation limits are contained in Customs and Excise Notice BN 1/87. Copies will be available at all local VAT offices.

The proposed changes to the law will close this loophole. As a result exempt businesses will have to register where the value of their taxable supplies and the cost of the relevant imported services together exceed the turnover limits. They will then pay the tax due on imported services and on any taxable supplies of their own in the same way as existing registered businesses.

Because of the loophole, exempt businesses have been able to import certain services VAT free and avoid the tax that they would have had to pay on identical services bought from UK registered traders.

The imported services in question include advertising, data processing and professional and consultancy services. There is evidence of avoidance particularly in relation to newspaper advertising ordered through agencies in the Channel Islands. The change (to section 7 of the VAT Act 1983) will put an end to unfair competition with UK businesses and will prevent a loss of revenue which would have amounted to about £5m by 1988-89. Full details of imported services affected are in Schedule 3 of the VAT Act 1983.

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Package to combat avoidance of VAT could add £300m to coffers

CUSTOMS and Excise issued the following statement after the Chancellor's speech:

In his Budget statement, the Chancellor announced a package of measures designed to combat VAT avoidance. Most of the measures follow from the consultation document issued by Customs and Excise on August 7 1986, entitled VAT: Input Tax: Origin and Scope of the Right to Deduct.

The Chancellor announced in Parliament on December 19 1986 changes he intended to introduce. The principal measures are:

Deductible input tax:
From April 1 1987 a VAT registered business will be able to recover as input only tax that VAT which is attributable to: business taxable supplies; business supplies outside the scope of UK VAT but which are placed outside the UK but which would have been either standard or zero-rated supplies had they been made in the UK; business supplies of warehouse goods disregarded under section 35 of the VAT Act 1983.

Input tax on overheads, including research and development, is deductible in full provided such expenses are used to support the activities of the business as described above. Only if such expenses were used to support other activities would a restriction on recovery of input tax apply.

One of the main effects of the changes will be to prevent the recovery of VAT input tax in relation to future exempt supplies. In the past some businesses have taken advantage of weaknesses in the current partial exemption rules and by carefully timing when exempt supplies are made have

recovered input tax to which they are not, in principle, entitled. Many other businesses have not sought to take advantage of these weaknesses and as a result have been placed at a competitive disadvantage.

Section 15 of the VAT Act 1983 (as amended) permits Customs and Excise to make regulations to secure a fair and reasonable attribution of input tax to taxable supplies and to adjust input tax which has been wrongly attributed.

A revised edition of Notice 706 Partial Exemption gives full details of the new partial exemption "de minimis" rules and of a new standard method for apportioning input tax.

Customs will continue to allow alternatives to the "standard method" of apportioning input tax provided they are practical, accurate and fair—agreement has, for example, been reached with representatives of the brewing industry on a special method for calculating input tax in relation to tied premises.

Registration of traders:
From Royal Assent Item 2 of, and Note 1 to, Zero Rate Group 15 (transfer of goods and services from the UK by a business operating both inside and outside the UK) will be repealed. Many businesses which were registered for VAT because they were making supplies which were zero-rated under Item 2 will remain eligible for registration under the new arrangements set out below.

Schedule 1 to the VAT Act 1983 will be amended from Royal Assent to enable businesses which make supplies in the UK but make overseas business supplies which are outside the scope of UK VAT (but which would have

been either standard or zero-rated supplies if they had been made in the UK), and businesses which make business supplies of warehouse goods which are disregarded under section 35 of the Act, to apply for VAT registration so as to recover the input tax attributable to such supplies.

Businesses affected by these changes must review their eligibility to remain VAT registered. Should they be eligible and wish their VAT registration to continue, they should make written application to their local VAT office. Businesses no longer eligible must apply for deregistration.

Exemption of services related to capital issues:
From April 1 1987, the making of arrangements for and the underwriting of capital issues will be exempt from VAT.

Acquisition of a business by a partly exempt VAT group:
From April 1 1987, a new provision will have effect under which partly exempt companies VAT grouped under section 28 of the VAT Act 1983 may, in certain circumstances, be required to treat the acquisition of business assets on the transfer of a business or part of a business as a going concern, as both a supply by and to the representative member of the VAT group. The representative member will be required to account for VAT on a supply of any chargeable assets and may also recover input tax in accordance with its normal partial exemption method in the tax period in which the assets are acquired.

Valuation of exempt supplies:
Currently, the special valuation provisions in Schedule 4.1 of the VAT Act 1983 do not make it possible for the Commissioners to make direct between connected persons shall be valued at the open market value. This change is necessary to prevent distortion of the partial exemption calculations through artificial valuation of supplies.

Revenue effect
The total package will prevent an estimated revenue loss of £300m in 1987-88.

A full copy of the deductible input tax regulations giving effect to certain of the changes outlined above was yesterday sent to all parties who have previously indicated they wanted one. Further copies can be obtained from: HM Customs and Excise, VAT Administration Directorate (VAD 6), Room 206, Knollys House, 11, Byward Street, London, EC3R 5AY.

The regulations will be laid in the Commons at the end of the Budget debate and are available in the interim in the Commons Library.

The revised partial exemption Notice 706, transitional arrangements leaflet and copies of Budget notices (BN 3/87 and 4/87) covering the following points are available from local VAT offices.

VAT: restriction of input tax:
regulation of overseas traders and repeal of zero rate Group 15 Item 2; registration of traders making supplies of warehouse goods; exemption of certain services related to capital issues.

VAT: acquisition of a business as a going concern by a

partly exempt VAT group.

From April 1 1987, VAT relief will be extended to: the installation or adaptation of any bathroom, washroom or lavatory facilities for the handicapped in charity residential homes; drugs and chemicals used directly by a charity in medical research; certain vehicles for use by hospices for transporting the terminally ill; and specialised location and identification equipment for use by charitable rescue and first aid services.

The new reliefs are contained in the VAT (Charities) Order 1987 laid before parliament today.

The relief for bathroom, washroom or lavatory facilities encompasses an existing extra-statutory concession for individual facilities in a charity residential home for the handicapped. The order also gives certain vehicles for use by hospices for transporting the terminally ill; and specialised location and identification equipment for use by charitable rescue and first aid services.

The effect of this package is to extend the VAT reliefs to present available to charities and eligible bodies at a cost of about £5m in 1987-88. The amendments to groups 14 and 16 of Schedule 5 of the VAT Act 1983.

In group 14 zero-rating will for the first time be available for services of a charitable nature (including the supply of related goods) of all bathroom, washroom or lavatory facilities for the handicapped in residential homes run by charities. This will parallel the existing relief for the same facilities for the handicapped in private residences.

In group 16 the new zero-rating for drugs and chemicals directly used in medical research extends last year's relief for medicinal products to charities engaged in medical research. The extension of relief to welfare vehicles (with six to 50 seats) for transporting the terminally ill is a further addition to the relief given last year for vehicles for the deaf, blind or mentally handicapped. The eligible bodies entitled to relief include health authorities and non-profit making hospitals are not subject to UK VAT.

At present, where for business purposes a registered trader buys in certain services from abroad, he has to treat them as if he had supplied them himself and charge himself tax. Businesses which are not registered because they deal wholly or mainly in exempt supplies do not, under existing law, have to count the cost of imported services as taxable turnover for the purposes of the quarterly or annual registration limits, and can thus avoid the need to register and account for VAT on the services in question.

The proposed changes to the law will close this loophole. As a result exempt businesses will have to register where the value of their taxable supplies and the cost of the relevant imported services together exceed the turnover limits. They will then pay the tax due on imported services and on any taxable supplies of their own in the same way as existing registered businesses.

Because of the loophole, exempt businesses have been able to import certain services VAT free and avoid the tax that they would have had to pay on identical services bought from UK registered traders.

The imported services in question include advertising, data processing and professional and consultancy services. There is evidence of avoidance particularly in relation to newspaper advertising ordered through agencies in the Channel Islands. The change (to section 7 of the VAT Act 1983) will put an end to unfair competition with UK businesses and will prevent a loss of revenue which would have amounted to about £5m by 1988-89. Full details of imported services affected are in Schedule 3 of the VAT Act 1983.

The annual registration limit is being increased from £20,500 to £21,300 and the single quarterly registration limit is being increased from £7,000 to £7,250, from midnight yesterday.

Cancellation of registration:
The limit will be increased from £19,500 annually to £20,300 (inclusive of VAT) from June 1 1987 for persons considering cancelling registration on the basis of their expected future turnover.

Persons will also be able to apply for cancellation of their registration after June 1 1987 if they have been registered for two years and their turnover (inclusive of VAT) in each of those years has not exceeded £21,300 and provided they do not expect their turnover to go above £21,300 in the year then beginning.

An estimated 14,000 extra persons will be eligible to request cancellation of their registration as a consequence of these changes.

Detail of the changes in the registration and cancellation limits are contained in Customs and Excise Notice BN 1/87. Copies will be available at all local VAT offices.

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Construction faces changes in PAYE

THE Inland Revenue issued the following statement after Mr Lawson's speech:

The Chancellor proposes to take steps towards tightening up the collection of PAYE and improving the operation of the deduction schemes for subcontractors in the construction industry.

These measures are in line with the recommendations of the Keith Committee and were identified for early consideration in the consultative document The Inland Revenue and the Taxpayers' Subcontractors on December 12 1986 in response to the recommendations of that committee.

It is proposed to:
Charge interest on tax paid late in circumstances where the inspector has had formally to determine the amount due because PAYE has not been properly applied at the right time by the employer. The interest charge will commence 14 days after the end of the tax year to which the tax relates, and take effect from April 20 1988.

Clarify the meaning of "payment" for PAYE purposes—for example, where sums are credited to an employee's account or remuneration is voted.

Subcontractors:
It is proposed that: there will be an interest charge, again from April 20 1988, where formal assessments are made by the inspector to recover money which a contractor should have deducted from payments to subcontractors.

Companies with a subcontractor tax exemption certificate will be required to notify the Revenue of any change in company control; failure to comply could lead to withdrawal of the certificate.

There will be a new right of appeal against the Revenue's cancellation of subcontractor certificates.

The Revenue will be empowered to require production of a contractor's records.

There will be new safeguards for contractors in certain circumstances where they have incorrectly paid subcontractors without deduction.

Betting duty changes
10p machines (now £750) will be £980 pa.

Gaming machine licence duty collection arrangements: Changes in the arrangements for the collection and repayment of gaming machine licence duty will operate from October 1 1987. All licences will be available from the first day of any month and quarter year special licence will be available for the first time. Refund terms on surrender of licences will be improved.

Revenue effect: The overall revenue effect will be neutral, the estimated £30m annual loss from the abolition of on-course betting duty being recouped from the increase in gaming machine licence duty revenue. Further notices: Full particulars of the changes are given in Customs and Excise Notices BN 8/87 (On-course Betting)

Restrictions on relief for overseas loan

THE Inland Revenue issued the following statement after the Budget speech:

The Chancellor proposes in his Budget to restrict the double taxation relief available to banks engaged in lending to non-residents.

In addition to enjoying a full deduction for interest paid on funds borrowed to finance such lending, banks are at present entitled to credit the full amount of any foreign tax (subject to an overriding limit of 15 per cent of the gross interest) on the interest received from an overseas borrower against the corporation tax on their profits as a whole.

In future, looking at each loan separately, they will be able to offset tax credit relief for foreign withholding tax paid on the interest they receive against the corporation tax on the profit only in the case of loans made on or after April 1 1987, the

new measures will apply to interest arising from that date. In the case of loans already in existence, the new measures will apply to interest arising from April 1 1988.

The new measures apply both to UK banks and to the branches and subsidiaries of foreign banks which undertake overseas lending business from the UK.

The yield will be negligible in 1987-88 but should build up over time from about £20m in 1988-89 to £60m in 1990-91. The yield is sensitive both to future patterns of overseas lending business and to the banks' cost of borrowing to a large extent, the rate of the dollar LIBOR of 6 per cent.

The Inland Revenue will be discussing the operation of the new rules with the banks and associations, with the objective of keeping to a minimum the costs of compliance.

Support for retraining
AFTER the Chancellor's speech the Inland Revenue issued the following statement:

The Chancellor proposes in his Budget to introduce tax relief to support retraining in new work skills which employers provide for employees who are leaving, or have left, to help them exploit new employment and business opportunities.

The proposals are aimed at employees who are either about to leave their current jobs or who have already left. It is intended that the employee will no longer be taxed on the benefit of the expenses of a training course paid for or reimbursed by the employer, where the course is concerned with retraining in new work skills or knowledge for use in a new job or business; the employer will (in those circumstances where he is not able to do so already)

be able to deduct the cost of such training in calculating his taxable profits.

The provisions will apply to qualifying training course expenses incurred on or after April 6 1987. The detailed provisions will be included in the Finance Bill.

Move on BES investment

AFTER the Chancellor sat down the Inland Revenue issued the following statement on the Business Expansion Scheme:

The Chancellor proposes in his Budget changes to the Business Expansion Scheme which will reduce the bunching of investment towards the last quarter of the tax year and improve the effectiveness of the scheme for film production companies.

The investor will be able to claim up to one-third of the BES investment in his income of the previous tax year subject to two conditions:

● the investment must be made in the first half of the tax year (between April 6 and October 5 inclusive); and

● the carry back will be subject to a maximum of £5,000 in respect of the total BES investments made in this period.

The option will apply to investments made after April 5 1987 and can be exercised only when the relief is claimed. The balance of the relief will continue to be allowed for the year in which the BES investment is actually made.

Film production companies up to now, film production companies have been eligible for BES status only if they are engaged in film production throughout the three year qualifying period. For shares issued from today, a company will qualify if throughout the period it is engaged either in film production or in the distribution of films produced during the period.

In practice this will help a company set up to produce a single film which produces a profit likely to take less than three years. The company will in future be eligible for relief if it spends the remainder of the period distributing the film.

The Chancellor proposes in his Budget to align the dates on which interest and certain other payments are treated as paid and received for tax purposes. The new rules will apply where the payment is between companies within a group, or under common control, and is made on or after March 17 1987.

It is possible for interest to be treated for tax purposes as received by the lender on a different date from that on which the borrower is treated as having paid it (for example, where interest is paid by a cheque). This gives scope for deferral of tax by companies within a group (or under common control) if the dates of payment and receipt for corporation tax purposes straddle accounting periods,

THE BUDGET: Details

Income tax reductions

SINGLE PERSONS AND MARRIED COUPLES—INCOME ALL EARNED

COMPARISON WITH 1984-87 WHERE EARNINGS INCREASE BY 64 PER CENT BETWEEN 1984-87 AND 1987-88 INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED IN)

Weekly income	Charge for 1984-87		Proposed charge for 1987-88					
	Income tax £	NIC† %	Percentage of total income taken in tax & NIC per cent	Adjusted* income in 1987/88 £	Income tax £	NIC† %	Percentage of total income taken in tax & NIC per cent	Percentage change in income after tax & NIC per cent
Single persons								
50.00	1.48	2.50	8.8	53.25	1.79	2.66	8.4	6.8
60.00	4.38	4.20	14.3	63.90	4.64	3.19	12.3	9.8
70.00	5.83	4.55	16.9	69.22	6.10	4.84	15.8	12.7
80.00	7.28	4.90	17.4	74.55	7.54	5.26	17.1	13.8
90.00	10.18	5.60	19.7	85.20	10.41	5.91	19.2	15.1
100.00	13.06	6.30	21.5	95.45	13.29	6.70	20.9	16.4
110.00	14.53	8.35	24.3	101.18	14.73	9.10	23.6	17.6
120.00	15.98	9.60	25.8	106.50	16.16	9.88	24.1	18.0
130.00	21.78	10.80	27.2	122.80	21.91	11.50	27.2	18.7
140.00	27.58	12.60	29.4	127.67	27.47	13.41	29.6	19.2
150.00	33.38	14.40	29.9	176.40	33.42	15.33	28.6	18.4
160.00	39.18	16.20	30.8	191.70	39.17	17.25	29.4	18.6
200.00	44.98	18.00	31.5	213.00	44.92	19.17	30.1	18.9
250.00	59.48	22.50	32.8	244.50	59.36	23.96	31.3	19.4
295.00	72.53	25.45	34.8	274.18	72.24	26.55	31.4	19.4
300.00	73.98	25.45	33.2	319.50	73.67	26.85	31.4	19.4
350.00	88.48	25.45	32.4	372.75	88.05	26.85	30.7	18.8
400.00	108.44	25.45	32.8	424.00	107.60	26.85	31.3	18.8
500.00	148.99	25.45	29.9	573.50	154.27	26.85	34.6	21.1
600.00	197.31	25.45	27.2	639.00	207.39	26.85	34.0	7.4
Married couples†								
75.00	1.37	5.25	8.8	79.88	1.86	5.59	9.3	5.9
80.00	2.02	5.60	10.5	85.20	3.30	5.96	10.9	6.1
90.00	5.72	6.30	13.4	95.85	6.17	6.70	12.4	6.4
95.00	7.17	8.55	16.5	101.18	7.61	9.18	14.5	6.5
100.00	8.62	9.00	17.6	106.50	9.05	9.10	17.5	6.7
120.00	14.41	10.80	21.8	127.80	14.80	11.50	20.6	7.1
140.00	20.22	12.60	23.4	149.10	20.55	13.41	22.8	7.4
160.00	26.02	14.40	25.3	170.40	26.30	15.33	24.4	7.7
180.00	31.82	16.20	26.7	191.70	32.05	17.25	26.8	7.9
200.00	37.62	18.00	26.0	213.00	37.81	19.17	26.8	7.9
220.00	52.12	22.50	29.8	244.25	52.18	23.96	28.6	8.4
245.00	65.17	25.45	30.8	314.18	65.12	26.85	29.2	9.8
295.00	81.12	25.45	30.3	319.50	80.95	26.85	29.1	9.8
350.00	96.62	25.45	30.3	374.00	96.46	26.85	28.9	9.7
400.00	117.12	25.45	32.6	429.00	116.96	26.85	31.7	7.9
500.00	137.54	25.45	32.5	532.50	142.42	26.85	34.5	7.3
600.00	184.62	25.45	35.0	639.00	194.22	26.85		

Basic rate of 25% in reach

AS IN 1986 the Chancellor has preferred to cut the basic rate of income tax, this time by 2p to 27 per cent, rather than to increase the main personal allowances by more than the inflation rate.

Only the very old — 80 years and more — through a "super-aged" allowance, and the blind, have benefited from a higher-than-inflation increase in allowances.

On the other hand the Chancellor's long-term aim, a basic rate of 25 per cent, is now well within reach, provided the electorate gives him or a Conservative Party successor the opportunity.

Overall the package is less favourable to higher-rate taxpayers than had been expected.

Income tax

MALCOLM GAMMIE AND FRANCES CORRIE

Last year the 1p cut in the basic rate was not reflected in the higher rates. The same is true this year. Those whose income goes over the basic rate threshold — fully-indexed to £17,900 — will face a jump of 13 per cent to the first higher rate of 40 per cent.

In addition, however, the threshold for the 45 per cent band is increased by only £200, rather than the £2,000 of 1986, while those for the 50, 55 and 60 per cent rates are not altered, even to allow for inflation.

Last year the thresholds were increased but not by the full inflation amount, so that for two years in succession there has been a real cut in the higher-rate thresholds.

Overall since 1979 it is the higher income groups who have benefited most from changes in income tax, and the effect of the present year's has been to weight the benefit of the basic rate cut in favour of those at the lower income levels.

A single person with income of £20,000 will see a 2.1 per cent cut in tax as a proportion of total income, whereas a single person on £70,000 will

only obtain a 0.7 per cent reduction.

No changes in national insurance rules were announced.

Middle managers at that level of income and with a company car will also see a 10 per cent charge. However, by reducing the basic rate rather than over-indexing allowances, the maximum income-tax relief is again concentrated on those at the upper end of the basic-rate band, and on those at the start of the first higher rate band, and thus offsets any additional national insurance contributions and scale charge suffered at that level.

The charts illustrate the relative change in disposable income at five income levels since 1983 and offer a comparison between the family with two children but only one earner and a similar family where both parents work.

It is assumed that pay over the period has risen in line with increases in average earnings. Accordingly the chart reflects the fact that average earnings—and, accordingly, disposable income—have increased faster than inflation.

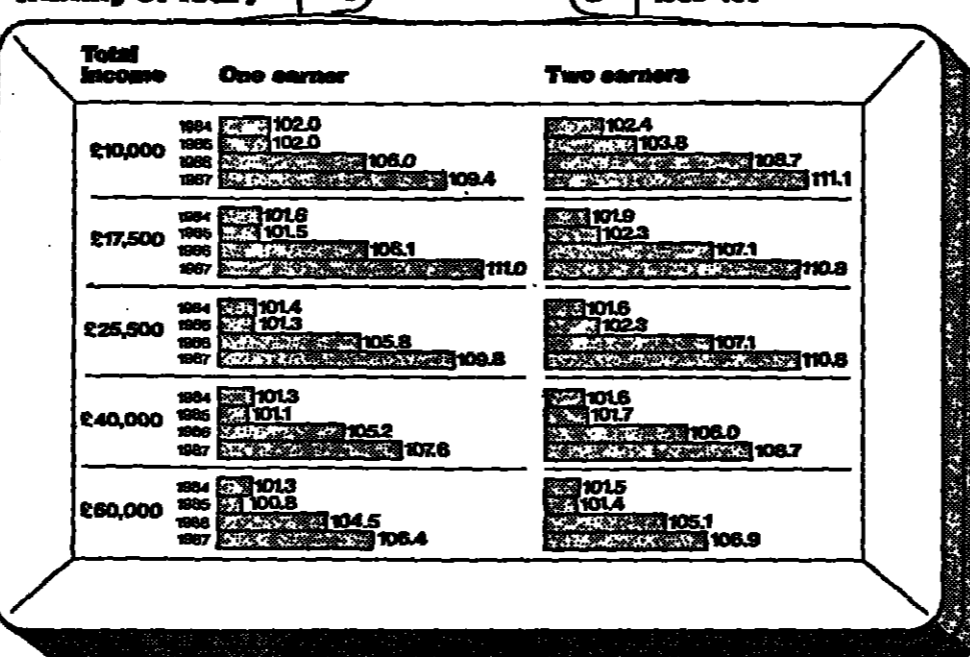
Disposable income has been calculated after income tax and national insurance contributions have been deducted and child benefit added. The resulting amount has been adjusted for inflation, to demonstrate the real spending power of the net income available to the family in each year.

A cut in the basic rate has several knock-on effects in the tax system. Payments made under deduction of basic rate tax, such as rent paid abroad or interest on payments made by companies, will now be subject to a lower level of deduction.

These covenants which are expressed in terms of gross payment—rather than a sum after reduction of tax—must from April 6 adjust the amount of tax they deduct from the payment.

Discretionary and accumulation trusts pay tax on their income at the basic rate and an additional rate, being the difference between the basic rate and the second higher rate. As this rate remains at 45 per cent, a 2 per cent cut in basic rate is

Real Disposable Income (family of four)



These charts illustrate the comparative increase in spending power of families with selected levels of income. The second income is assumed to be £5,000 throughout and, at each level of income, child benefit for two children has been included. The levels of gross earnings shown are those for 1983-84. Disposable income in earlier years has been calculated by adjusting back these earnings in line with changes in average earnings and deducting income tax and national insurance contributions. Disposable income has then been restated at its March 1987 value, taking account of changes in the Retail Price Index. No allowance has been made for tax relief on mortgage interest or pension contributions.

mirrored by a 2p increase in the additional rate. However, credit for the 45 per cent tax charged is given when income is distributed from the trust.

Mortgage interest payments under the MIRA scheme will rise to reflect that tax relief is only being given at 27 per cent. However, the effect of this change may be masked by a fall in interest rates after the Budget. The Chancellor has not raised the £30,000 threshold for MIRA relief nor has he restricted the relief to the basic rate only.

The rate of deduction on payments to subcontractors in the construction industry who do not hold a valid certificate will also fall from 29 per cent to 27 per cent. This change will not take effect until this November 2.

However, the advance corporation tax payable by a company on its dividends is automatically reduced from 28/71st to 27/71st, to provide a shareholder with a tax credit reflecting his reduced basic rate liability.

For a company paying the full corporation tax rate after this March an incidental effect of this is to increase from 6 per cent to 8 per cent the amount of tax ultimately borne by the company which it cannot pass

Tidier approach to tax on gains

THE BUDGET simplifies the structure of corporate taxation in a significant respect. This relates to the way in which companies are taxed on their capital gains.

The pre-Budget position was that companies were charged at the capital gains tax rate applicable to individuals, currently 30 per cent. During the lengthy period when corporation tax hovered around the 50 per cent mark, this meant that a company's capital gains were much more heavily taxed than its profits.

However, as the Chancellor pointed out in his speech, the steep decline in corporation tax has whittled away this differential. Hence, the distinction between profits and capital gains has lost most of its financial meaning.

Under the new system, companies' capital gains are to be treated in precisely the same way as income and taxed at the same rate. For companies paying the standard 35 per cent corporation tax charge, this will mean an effective increase of 5 percentage points. On the other hand, smaller companies, which will now pay only 27 per cent (reduced in line with the standard rate) can look forward to a saving of 3 percentage points on their future capital gains.

The integration of corporate capital gains with profits will produce a beneficial side-effect for both large and small companies. When a company pays a dividend to its shareholders it has to account to the Inland Revenue for advance corporation tax (ACT). ACT paid can subsequently be offset against the liability to main stream corporation tax, hence reducing its overall tax bill.

However, under the old system, ACT could not be offset against a company's liability to pay tax on its capital gains. Hence, if a company realised a profit sufficient to absorb its ACT, the excess ACT was wasted.

From now on, surplus ACT can be used to extinguish a tax liability on capital gains. If the changes affecting capital gains are to be neutral, the other corporate tax changes are clearly designed to increase Government revenues by curbing popular avoidance techniques.

Corporate taxes

DAVID COHEN

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From now on, surplus ACT can be used to extinguish a tax liability on capital gains. If the changes affecting capital gains are to be neutral, the other corporate tax changes are clearly designed to increase Government revenues by curbing popular avoidance techniques.

The use of pre-1983 companies to defer tax liabilities hit the headlines last year when a company was exploited by Storehouse, the company which resulted from the British Home Stores and Habitat Mithras merger.

A post-1983 group of companies would purchase last year's profits and channel all the profits of the group into the older company. This technique was capable of deferring the due date for payment of tax by as much as 12 months.

Now, after a transitional period, all companies will have to pay corporation tax for each financial year no later than nine months after the year-end.

Another category of companies which has had a tax-planning avenue closed are those which are partially exempt from value added tax. The normal consequence of being partially exempt is that a company can only reclaim a proportion of the VAT which it pays.

Companies sought to avoid this by putting the expenditure through a subsidiary which was fully chargeable to VAT. By skilful manipulation of the VAT rules on the grouping of companies, it was then possible for the full amount of the VAT to be recovered.

On the purely administrative level, the Finance Bill will create the basis for a new "pay and file" procedure for companies.

This will require them to pay corporation tax by a certain date—whether or not they have received an assessment—and to file tax accounts within 12 months of the year-end.

The uncertainty can scarcely be overestimated, as the Chancellor himself implicitly acknowledged with a teasing reference to a recent speech in New York by Mr Roy Hattersley, the shadow Chancellor. In this speech, Mr Hattersley had declared that his party had no intention of reintroducing statutory exchange controls.

The act was introduced at the start of the Second World War. It gave discretion to the Bank and related to co-operation with financial institutions and companies, the currency transactions of which the Bank was obliged to monitor.

Since its suspension in October 1979, by Sir Geoffrey Howe, the Chancellor, numerous developed countries have followed Britain's example in abolishing restrictions on capital mobility.

As a result, capital movements now exercise a more powerful influence on exchange rates than the underlying trade in goods and services. Further, since 1979 Britain has become

An unpleasant surprise for the bankers

BANKS and financial institutions are among those hardest hit by a number of measures which are designed to close tax loopholes and save several hundred million pounds a year.

Mr Lawson described them as "unintended or unjustified tax breaks" which cause overall tax rates to be higher than they need be.

The most controversial measure is a proposed change in the tax treatment of foreign loans by UK banks which Mr Lawson says will and the current tax subsidy to overseas lending, but which the banks say could inhibit this activity.

At present banks can claim a general tax credit for any withholding made by foreign governments on interest they receive on foreign loans. In future, banks will only be able to offset this credit against tax on the profit of the relevant loan.

Mr Lawson claimed that the change would bring the UK into line with other countries. It will be applied in stages, yielding some £200m in 1988-89, rising to £50m in 1990-91.

Bankers said last night that the change would greatly reduce the value of tax relief on their foreign lending, and will force them to reassess the profitability of this activity.

The problem, essentially, is that relief will apply only to profit on a loan. This is likely to be of the order of 1 per cent after funding costs, while a typical rate of withholding is 10 per cent, most of which will now go unrelieved where previously the credit could be applied to other profits.

The precise impact of this change will depend on technicalities which will now be thrashed out between the banks and the Revenue, including the way that profit on a loan is to be calculated. Mr Lawson's decision to introduce the measure marks a victory for the Revenue, which had to retreat from a previous attempt in 1982 in the face of great hostility from banks.

Although foreign lending has declined in importance for banks because of the growth of other types of financing, the impact of the measure will be to lead to Third World countries could become an issue.

Banks and financial institutions will also be affected by Mr Lawson's measures to reduce the amount of input tax which businesses which are

partially exempt from VAT can deduct (see separate article). The Chancellor clearly had some encouragement to deal out more severe tax treatment to banks following the record profits they have just reported for 1986.

Mr Lawson also confirmed the Government's intention to plug the so-called "Delaware Link", one of the more notorious corporate tax loopholes.

Sophisticated multinational companies establishing dual residence in the UK and the US were able to claim tax relief in both countries for the same financing costs. This resulted in lost tax revenues which were estimated at £200m to £300m a year.

Mr Norman Lamont, the Financial Secretary to the Treasury, announced in December that action on the link would be taken. Yesterday's proposals are based on consultations which have taken place since then.

Although banks and businesses have lobbied hard against reform—the banks argued, for example, that it encouraged US companies to borrow money in London—the abolition of the link was never seriously in doubt, particularly now that the US has taken steps to plug the hole at its end.

Genuine trading companies will be exempted from the proposed change in the tax law, which will take effect from April 1 and is expected to yield £125m in 1988-89, according to the Chancellor.

Mr Lawson also introduced a number of smaller measures to plug gaps in the tax structure. These include legislation to ensure that a UK resident partner of a foreign partnership pays all the tax he should on his share of the partnership's profits.

The recommendations of the Keith Committee on the enforcement of the Revenue's powers to put a brake on capital outflows by changing the tax system.

Labour's plans include removal of tax privileges for investment institutions such as pension funds and insurance companies if they fail to repatriate overseas investments above a given percentage of overall portfolios.

Part of the attraction for Labour is the support such a scheme would give to sterling, which traditionally weakens when Labour governments take office.

The alcohol and tobacco industries greeted the decision not to increase excise duties with relief and motor organisations welcomed the move to reduce the tax on unleaded petrol.

echoed the election line. He said the tax tonic, designed to buy Tory votes on tick, would not revive job-starved Britain.

In contrast, Aims of Industry, the right-wing pressure group, described it as "a sound, almost excessive non-reaction Budget, excellent for taxpayers and small firms," which should stimulate growth and increase employment.

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Options to swap at takeover time

ALTHOUGH not mentioned in his speech, Mr Lawson yesterday announced one important change affecting employee share schemes. This will make it possible for employees of a company which is taken over to exchange their share options for options in the company acquiring them.

There is at present no statutory provision allowing them to do this. The change affects two types of Inland Revenue-approved option schemes. The first is the saving-related option scheme introduced under the 1980 Finance Act. These options have to be exercised either five or ten years after they are granted, depending on what the employee elects at the time the option is granted.

The second is the scheme introduced by the 1984 Finance Act. These usually have to be exercised between three and

Employee share schemes

MICHAEL SKAPINKER

10 years after they are granted and no less than three years after the exercise of a previous option under that scheme.

Until now, employees holding options in a company subject to a takeover have either had to exercise the options at the time of the takeover, thereby losing income tax liability, or, in certain circumstances, they have simply lost the options.

The Chancellor has proposed that holders of options in a target company would be able to obtain options in the acquiring company on condition that the value of the options being surrendered is equal to the value of those being acquired. To qualify, the replacement options will also have to continue to be governed by the rules of the target company's existing scheme.

The move was welcomed by Mr Laurie Brennan, chief executive of New Bridge Street Consultants, which advises companies on employee share schemes. The changes would bring "immense relief to a great number of people," he said. "We pointed out last year that the last thing a bidder wants is to turn off its new employees."

The Chancellor also announced that legislation governing older schemes which have not been approved by the Inland Revenue would be reviewed. The review was welcomed by remuneration consultants, who said earlier schemes had become increasingly complicated.

Half measure better than nothing

THE OIL industry has obtained about half of what it wanted from the Budget in terms of measures designed to boost flagging activity in the North Sea.

Oil companies welcomed the move to make 10 per cent of new development costs offsettable against petroleum revenue tax from existing fields, although they doubted whether development would be either quick or dramatic.

The industry was hoping for an allowance of at least 20 per cent and had asked for a series of other measures, including lowering the rate of this tax. Mr Roland Shaw, chairman of Premier Consolidated Oilfields, said yesterday: "We had asked for 20 per cent but I had expected zero, so this really is not too bad."

However, Dr Dickson Mabon, chairman of British Indigenus Petroleum Group, said the measure would not be enough to push forward the four to

five new developments needed to preserve the distressed offshore supplies industry.

He said: "The Chancellor has got the diagnosis right but has got the number wrong. We'll have to lobby now to seek to

Oil

LUCY KELLAWAY

get it changed to 20 per cent in the Finance Bill."

The 10 per cent allowance, which applies to offshore oilfields but not onshore developments or those in the Southern Gas Basin, will cut new oilfield development costs by about 6 per cent for companies paying both petroleum revenue tax and corporation tax.

The Government, in deciding the size of the allowance, was anxious not to distort the system so as to encourage projects that were uneconomic before tax to proceed. It believes allow-

ances on the scale sought by the industry would risk doing this.

According to Wood Mackenzie, the stockbroker, the allowance is likely to raise the return on most projects by about 2 per cent and to help accelerate the development of some new oilfields. It said these might include Arbroath, Bruce, Ness, Don, Eirik, Kittiwake, Miller, Osprey, T-Block and Emerald.

The second measure announced — allowing spending on research that does not relate to any particular oilfield to be offset against petroleum revenue tax — was yesterday thought to be of limited significance: it will have no effect for three years and sums involved are small.

However, it marks a personal victory for Mr Alister Buchanan-Smith, the Energy Minister, who has repeatedly emphasised the importance of North Sea research.

Oil companies yesterday welcomed the 5p cut in duty on unleaded petrol as a step

in the right direction, although some doubted whether it would be enough to boost sales.

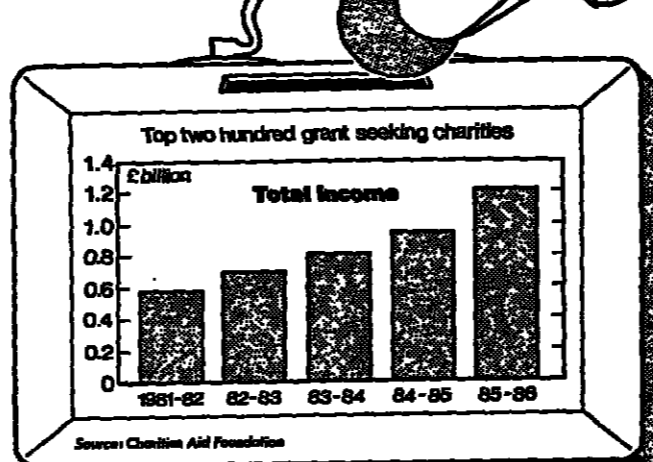
The change will lower the price of unleaded petrol to about 175p a gallon, putting it on a par with the price of four-star petrol. However, the industry was disappointed that the Chancellor had not given the fuel a stronger boost by cutting its price by about 5p, to make it comparable with the price of two-star petrol with which it competes.

Tesco said yesterday that in spite of the cut's modest scale it planned to expand its network of stations offering lead-free petrol. It said it was cautiously optimistic that the move would result in higher demand.

Unleaded petrol has not been a success since it was introduced to the UK more than a year ago. It commands less than a tenth of 1 per cent of the UK market and less than 1 per cent of sales in the limited number of stations in which it is sold.

Charities

Estimated total income for all charities, 1984 was £7.2bn, 1985 £10bn+



back tax on covenanted giving and the VAT and Tax Reform Group estimated the tax reduction would lead to a loss of up to £2m in tax relief for its 200 members.

However, the Charities Aid Foundation, which specialises

in managing covenanted giving, said that the increase in donations expected to result from the pay-relieving scheme announced in last year's Budget should more than offset any reductions in income tax rebates.

Extension of VAT relief 'helpful but disappointing'

CHARITIES described the extension of VAT relief on some of their activities as "helpful but disappointing overall."

Charities had launched a campaign to persuade the Chancellor to extend tax con-

Charities

LISA WOOD

cessions for charitable work.

In the event, Mr Lawson extended VAT relief to four new areas:

• The installation or adaptation of a bathroom, washroom, or lavatory for the handicapped in charity residential homes.

• Drugs and chemicals directly used by a charity in medical research.

• Certain vehicles for use by hospices for transporting the terminally ill.

• Specialised location and identification equipment for

use by charitable rescue and first-aid services.

The Charities VAT and Tax Reform Group, an umbrella organisation for more than 200 charities, which had asked Mr Lawson to build on his commitment last year to support and develop the work of the charitable sector, said the measures announced yesterday would be helpful.

It said the Treasury had estimated the savings at up to £1m but it calculated that the sum would be more like £1m to £2m. The group expressed disappointment, however, that the Chancellor had not exempted VAT on building alterations.

It said, for example, that the Jewish Blind Society was spending £750,000 on converting a home in north London into which the VAT would be £75,000. The exemption on bathroom facilities would reduce this sum by only a small amount.

Fears were also expressed at the loss in revenue arising from the 2p in reduction in basic income tax. Charities can claim

Tightrope walker wins applause in City and boos from unions

THE CITY and industry reacted enthusiastically to the Budget, arguing that it was responsibly cautious and would help growth without triggering high inflation. But the trade unions regarded it as a political udder aimed at cultivating

General Election votes.

Mr David Nicholson, president of the Confederation of British Industry, said the Chancellor's Budget was "prudent and reasonably generous." Particularly good news for business was the scope it gave for a reduction in interest rates of about 2 per cent over the next few months.

The main disappointment,

according to the association, was the Chancellor's failure to cut national insurance contri-

butions at the lower end in order to stimulate jobs. This had been a lost opportunity.

From the City, the reaction was equally favourable, but there was an element of the lost opportunity. "It is a good Budget for small companies; it is a solid Budget," was the main reaction of Mr Michael Hughes,

chief economist of Barclays de Zoete Wedd.

But he added it was a slightly unexciting mix. "If you wanted to give an impression of solidity and strength of purpose, then this was it." The main surprise was the concentration on measures likely to reduce interest rates rather than on personal tax cuts.

Nomura International, the Japanese finance house, said the Chancellor had displayed his tightrope walking skills to the full with a Budget that wooed the electorate with tax cuts of £2bn and at the same time reassured the City that fiscal policy remained under control

and that lower interest rates were on the way.

"The general shape and tone of the Budget is broadly welcomed and should provide further strength for equities, for the currency," said Nomura. Overseas investors should, therefore, find the UK increasingly attractive.

The reaction of the Trades Union Congress and of unions in general was much more hostile. "This is a throwaway Budget," said Mr Norman Willis, TUC general secretary. The Chancellor had thrown away the chance to create jobs, just as he had

thrown away the country's oil revenues.

"The TUC wanted the Chancellor to invest in Britain's future. He has chosen instead the short-term easy way out, the ordinary families of the nation will pay a heavy price for such blatant opportunism."

Mr John Daly, general secretary of the white-collar union, Nalco, said the Chancellor had confused the Budget box with the ballot box and was buying votes, not jobs. "He has squandered this year's windfall tax revenue," he said.

Mr Rodney Bickerstaffe, general secretary of the National Union of Public Employees,

echoed the election line. He said the tax tonic, designed to buy Tory votes on tick, would not revive job-starved Britain.

In contrast, Aims of Industry, the right-wing pressure group, described it as "a sound, almost excessive non-reaction Budget, excellent for taxpayers and small firms," which should stimulate growth and increase employment.

The alcohol and tobacco industries greeted the decision not to increase excise duties with relief and motor organisations welcomed the move to reduce the tax on unleaded petrol.

echoed the election line. He said the tax tonic, designed to buy Tory votes on tick, would not revive job-starved Britain.

Wednesday March 18 1987

A bludgeon used gently

MR NIGEL LAWSON has been far from subtle in what is clearly an electioneering Budget, but he has been fiscally responsible. By deciding to use more than half the buoyancy of the revenue to cut borrowing rather than taxes, he has delighted the financial markets—indeed, it may be quite difficult to contain the strength of sterling in the immediate future, since it rose sharply last night on the expectation of lower interest rates. Ordinary taxpayers, smokers, drinkers and racegoers will no doubt be appreciative of what has and what has not been done. The poor and unemployed will not. The tone of the Chancellor's speech was rather complacent, but he can readily be forgiven for that. The growth of the economy is accelerating a little, and the growth of manufacturing and exports are accelerating quite sharply, as it enters its seventh year of uninterrupted progress, and there does not seem to be any domestic reason to doubt that this progress can be sustained.

Biggest relief

Indeed, the official projections suggest that whoever is Chancellor next year will be in the same happy position, with a comfortable sum to spend, save or remit; and this projection is based on the oil price will average \$15 a barrel. The forecast current account deficit should present no financing problems, because the UK economy, with its offer of steady growth, has managed to catch-up in productivity and large overseas investment assets is at the moment a favourite with international investors.

This popularity could prove quite durable, for the three major developed economies are all at the moment facing quite intractable problems, as the Chancellor pointed out. This means that perhaps the biggest relief contained in yesterday's Budget may well prove to be the one which the Chancellor did not announce: a cut in interest rates. It is now clear that this will amount to a full point initially, and it could well go further before long.

In the short term, though, this faces Mr Lawson with something of a dilemma. The most recent retail figures confirm that the consumer boom, partly credit-supported, has lost little of its force yet, and for purely domestic reasons he may wish to be cautious in cutting interest rates as he has been in cutting taxes. However, he must also wish to keep the economy as a support for business confidence; investment plans hinge far more on the medium-term prospect for competitiveness than they do on the short-term outlook for interest rates.

It is a great pity, then, that the Chancellor, unable to make even a passing reference

to prospective British membership of the European Monetary System. This would not only provide solid assurance for business planners, but would restore the broad measure of monetary conditions which is needed to guide day-to-day monetary policy. By simply abandoning Sterling M3, without putting anything in its place, Mr Lawson has taken all the rigour out of his ever-changing medium-term financial strategy.

The other regrettable omissions in this Budget were the lack of any measures aimed directly to reduce unemployment, and the failure to make any attempt to reduce the cost of employment, a rationalisation of the scale of employers' contributions to reduce one more poverty trap, and an increase in family allowances all figure in their proposals, and some recent polls suggest that many voters prefer the alternatives.

The failure to index excise duties also seems a little insensitive. This will win a catch-up headline or so, but in a poor cause. Perhaps the real reason was to suppress a small bulge in the RPI in May and June; by implication, one of the figures Mr Lawson failed to omit was the date of the general election.

Least exciting

However, one omission was extremely welcome: Mr Lawson has not raised the ceiling for mortgage tax relief, despite the pressure from his backbenchers and possibly from more august lobbyists. The smaller positive measures all seem well-conceived: greater freedom for private pension provision, some reinforcement of the incentives for profit-sharing, measures which will reduce both the financial and form-filling burden of VAT on small businesses, and carefully limited incentives for North Sea oilfield development. Those who find some loopholes blocked, have to pay more for their business cars, should be able to pay up with a smile.

Perhaps the least exciting feature of the Budget, though, is its centrepiece. Everyone expected 2p off income tax, and it could be unfair to complain on the grounds that it is only partly by the failure to index the higher-rate tax bands, which is perfectly fair, and partly by the failure to raise the lower limit for national insurance contributions, which is not.

The balance is made up almost entirely from business taxes; the Budget in fact represents no detectable change in the total burden of non-oil taxes on the economy. So the cut is not only unexciting, but partly illusory. Even within the very tight fiscal limits he rightly set himself, Mr Lawson might have conceived some more finely aimed measures.

A taxing time for Japan

TWO JAPANESE numbers have caught the eye this week. First, the nation's gross national product, the envy of the western world, expanded last year by a mere 2.5 per cent in real terms; not that shabby by international standards but the worst Japanese performance in 12 years. Second, the popularity of Mr Yasuhiro Nakasone, the distinctive Prime Minister whose party was returned by a landslide only last summer, has dropped to its lowest level in his four and a half years of office, mostly because of opposition to his proposed new sales tax.

The twin figures neatly illustrate the Japanese dichotomy. On the one hand, there is no doubt that the appreciation of the yen is hurting an economy that has thrived on exports. Unemployment is at a post-war high of 3 per cent (greater if Western measurements were applied), corporate profits are routinely down by a third or more compared with 1985 (albeit after two fabulously successful years) and exports are running at 15-20 per cent below last year's levels (at least when counted in yen).

Different perception

On the other hand, it is much less clear that the pain is now so great as to cause those who matter in Japan, in industry and government especially, to contemplate abandoning all the tried and trusted methods that have served the country so well for so long. These include, in this decade, a commitment to fiscal austerity and, for much longer, a belief that thrift is a national virtue. Mr Nakasone's problem, not a new one for him, lies in his willingness to go against the grain.

Outsiders tend to feel that his tax reform package is cautious. The new sales tax and the removal of the tax exemption on small savings are basically designed to finance the proposed

reduction in income taxes; the net result is, initially, fiscally neutral and certainly does not constitute the stimulus to the economy that Japan has frequently promised to supply, most recently at the Paris meeting of finance ministers. The perception in Tokyo, by both protagonists and opponents of the plan, is entirely different. There it is seen as a positively revolutionary change because it attacks the principle of thrift that is so much part of Japanese public and private policy. Combine this philosophy of thrift with the dislike of powerful vested business interests for any form of consumption levy and it is apparent that Mr Nakasone has bitten off as much, and maybe more, than he can chew.

Book juggling

If it goes through, the Nakasone camp argues, then other structural changes may follow, though probably after a decent interval. But in the more immediate term the price is likely to be an avoidance of any form of risk on the government spending side. The government is still officially pledged to end deficit financing by 1990—how this is to be achieved remains a mystery—and will thus probably confine itself to juggling devices such as loading public spending much of which is drawn from the so-called "second budget." Fiscal austerity, however, will remain intact.

Some stimulus could be provided if the sales tax were delayed for a year, while other parts of the package go through. But that may be the most the West can expect from a country whose preference is for incremental change. If the US economy continues to hold up, in the end the magnitude of what Japan needs to do may lessen.

IDEALLY, the Chancellor would not have reduced mainstream taxation at all. Or if he had done, he should have played around with allowances, thresholds and drawbacks, or increased next month's new benefit scales selectively, to help those at the lower end.

But given the enormous pressures on him from his own party, his next-door neighbour at Number 10, and the prevailing climate of crude fiscal arithmetic, he has done much better than one had a reasonable right to expect.

His projected Public Sector Requirement for 1987-88 is, at £4bn, at the lowest end of financial market expectations. Moreover, his projection is based on a deliberately cautious estimate of a \$15 per barrel oil price, some \$3 below current levels. Public spending may of course be larger than projected. But so too is likely to be revenue.

The way is now open for a series of interest rate cuts, which will be necessary if sterling is to remain in the range which he indicated in the Paris meeting of the Group of Five and which is reaffirmed *sotto voce* in the Budget documents. The assumption in the Red Book that the trade-weighted sterling index will not change is rather firmer than usual, and comes after a reference to recent undertakings at international meetings.

The main test for the Chancellor will be how he handles these interest rate reductions and the credit demand they are likely to stimulate without stoking up inflationary expectations.

But economic policy is not all or mainly macro-economics. Faithful readers will remember that I have always said that I would apply two main tests to the Budget. First, I would judge it by the Chancellor's resistance to any political pressures from the Prime Minister or elsewhere to raise the threshold on mortgage interest relief above its present £30,000 and thus add to the distortions in the housing market. He managed without doing anything at all to the mortgage ceiling.

Secondly, I said that I would judge the Budget by what the Chancellor did on Profit-Related Pay which is a far more important subject than tax reform. In fact he doubled the scale of incentives in last autumn's Green Paper, and although someone who would like to try a full Martin Weitzman experiment would want still more, it would be churlish to grumble.

Having followed this negative and positive prescription on two key issues, and not done anything wildly extravagant on the macro-economic side, I am bound to say that in circumstances it is a good Budget—far more so than an exciting set of measures which would

Economic assessment

Better than the City expected

By Samuel Brittan

have been cheered more loudly by his own Backbenchers, but would have had to be taken back in the autumn like the last spring Budget of R.A. Butler in 1955.

My main quarrel would be not with the Budget but with the speech. The Chancellor might have made far more of the scale of relief now available to the employee on Profit Related Pay. A married man on average earnings might start off with only £80 per annum of relief, if the profit-related element began at 5 per cent of the total pay packet. But if it eventually rose to 20 per cent, which is the underlying idea, the tax relief would be nearly £200 equivalent to another 4p of the basic rate of income tax. For someone on higher earnings the relief would

come to over £400.

But the Chancellor did not enlarge either on the tax benefits from adopting PRP or on the economic case for it, which he will have to do to make an impression on stodgy business and trade union leaders who still do not have the faintest idea of what is involved.

Indeed, the whole forward-looking section of the Budget speech was concerned mainly with minor Inland Revenue adjustments which could have gone into press notices. One heard nothing about themes such as the need for regionally differentiated market-related pay, which have occurred in earlier speeches and which suggested that after nearly two terms of neglect, Ministers were

UK FISCAL POLICY

Fiscal year	£bn	% of GDP	PSBR	
			£bn	% of GDP
1974-75 (av.)	8.2	4.8	8.3	4.8
1975-76	10.0	4.8	10.4	5.0
1976-77	12.7	5.5	13.1	5.5
1977-78	16.6	6.3	19.1	6.5
1978-79	18.9	6.3	23.3	6.3
1979-80	19.8	6.3	23.3	6.3
1980-81	20.2	6.3	23.3	6.3
1981-82	20.2	6.3	23.3	6.3
1982-83	20.2	6.3	23.3	6.3
1983-84	20.2	6.3	23.3	6.3
1984-85	20.2	6.3	23.3	6.3
1985-86	20.2	6.3	23.3	6.3
1986-87	20.2	6.3	23.3	6.3
1987-88	20.2	6.3	23.3	6.3
1988-89	20.2	6.3	23.3	6.3
1989-90	20.2	6.3	23.3	6.3
1990-91	20.2	6.3	23.3	6.3

N.B. Figures for 1986-87 are Treasury estimates and for later years Treasury forecasts.
Source: Financial Statement and Budget Report, 1987-88

A sprint start for the custom-made pension

By Eric Short

THERE IS LITTLE doubt that individual pensions are in the vanguard of the Chancellor's personal savings strategy.

The reforms in pension tax have the aim of strengthening the previous moves by the Government to liberalise the provision by individuals of their own pension arrangements.

But there is also an unexpected attack on the use of pension arrangements by controlling directors and other very highly paid executives as part of tax avoidance schemes.

In liberalising individual pensions, the Chancellor has announced two new moves.

First he is bringing forward the start date of the new-style personal pensions by three months to next January instead of April (at least for employees not in a company pension scheme—others will have to wait for the original date).

Second he is freezing AVC (additional voluntary contribution) arrangements for those employees in a company scheme.

Under the 1986 Social Security Act, employees will be able to leave a company pension scheme or the State Earnings-Related Pension Scheme (Serps) and make their own pension provision.

Now employees will be able to leave Serps from January 4 1988 and, if desired, backdate the minimum required contribution for the whole of the tax year 1987-88, including getting the benefit of the extra 2 per cent contribution incentive for six years.

However, employees in a company scheme will still have to wait for the original start date of April 6 1988 before they can join a personal pension. Moreover, the incentive will be paid for only five years.

The tax rules for personal pensions are almost the same as for retirement annuities for the self-employed, as set out in last November's consultative document, but there are two notable exceptions.

Employees are to be permitted to have more than one personal pension contract at any time. At retirement they will be allowed to take 25 per cent of the value of their policy

in a tax-free cash sum, whereas the self-employed, under a more complicated formula, can usually get a higher proportion in cash.

This advance of the start date may be welcomed by employees, but will be received with mixed feelings by the institutions providing personal pensions.

The Government has still not published the full regulations under which personal pensions will operate. In particular, the method of marketing and the expenses structure have still to be defined. Until these are known institutions cannot de-

fine cash that can be taken from a company pension scheme or an individual's one or more pension contracts.

However, this will only apply to future private plans taken out, or to employees joining their company scheme as from yesterday. Existing entitlements will be unaffected.

Under a company scheme the restriction will affect only those employees earning over £100,000.

At present, employees in company schemes can adjust the lump sum benefits so as to get out the maximum permissible cash sum, without having to adjust the pension—known as accelerated accrual benefits. This will no longer apply, and higher cash sums must be accompanied by higher pensions.

To this end, the Chancellor will not allow AVC benefits to be counted for cash sums, a restriction which amounts to another dampener on pension mortgages.

More generally, the £150,000 cash-limit will have implications for the development of more ambitious pension mortgage schemes, particularly unless this limit is relaxed in line with earnings growth. In a roughly parallel situation, successive Chancellors have not upgraded the limit on the size of mort-

gages qualifying for tax relief on interest.

Indeed, Mr Lawson suggested that there have been abuses of the generous tax treatment of pensions by some highly paid people and this is to be addressed not only by the limit on cash commutation, but a general tightening up of the rules governing the level of benefits paid.

Under a company pension scheme, benefits are usually based on earnings at or near retirement. This has led to some highly paid executives boosting earnings artificially in the 12 months preceding retirement by a variety of devices, one common example being the manipulation of the maturity of share option schemes.

Up to now, the Inland Revenue has allowed bonus payments and other supplementary income above basic salary to be taken into account in calculating earnings for pension purposes. So the Chancellor is proposing that:

- Gains from share options will no longer be included in final remuneration calculations.
- Employees earning £100,000 or more will have their remuneration averaged from the best three-year period out of the final 10 years before retirement.
- Controlling directors will also be subject to these restrictions.

sign pensions in any detail and set up their tailor-made administration systems.

Employees in company pension schemes have always been able to boost the benefits from the main fund by making AVCs. However, there have been severe restrictions: only the trustees have been able to set up AVC arrangements and employees have had to commit themselves for at least five years.

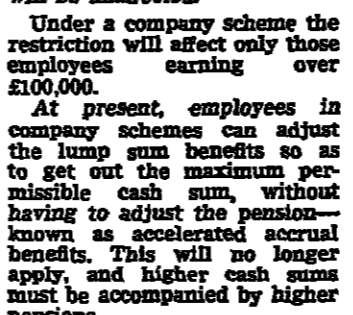
From October this year, employees will be able to make their own AVC arrangements with an institution of their choice, paying contributions directly on a net basic tax basis (similar to the Miras system for mortgage payments). In addition, they will be able to make contributions on a yearly basis.

Employees will still be subject to an overall contribution payment of 15 per cent of earnings (including payments to the main scheme) and only one scheme per year will be allowed. However, it is not all a matter of concessions from the Chancellor this year.

On the restrictive tack, he has put an overall limit of £150,000 on the amount of tax-

ation insurance contributions

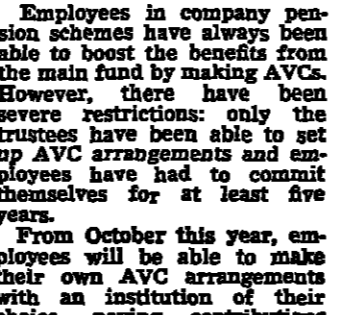
Percentage of employees at standard rate and contracted out



Source: Department of Health and Social Security

ation insurance contributions

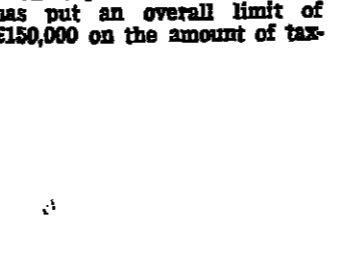
Percentage of employees at standard rate and contracted out



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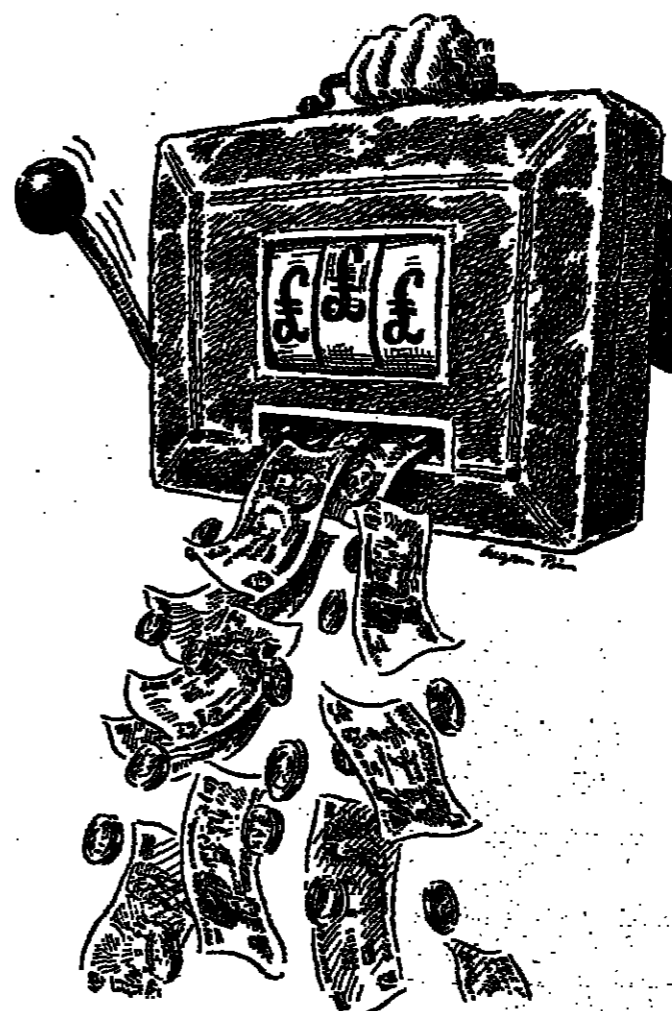
Percentage of employees at standard rate and contracted out



Source: Department of Health and Social Security

THE BUDGET: Analysis

Financial Times Wednesday March 18 1987



gradually towards 3 per cent by 1990. But to go faster without interrupting the fall in unemployment would require either radical intervention in the labour market or adhesion to the European Monetary System.

My own view is that the Treasury forecasts understate real growth, partly because they underplay the credit boom and partly because the Treasury's forecasting equations are much too pessimistic about the effects of a devaluation, which is expected to last, on exports and imports. The £24bn current payments deficit predicted for this year is mythical because it ignores the much larger balancing item; and even on its own terms it understates the likely growth of exports.

But the very underplaying of the credit boom carries its own dangers. For rapid demand growth can all too easily spill over into inflation. The intellectual core of the Medium Term Financial Strategy is the projected path for total spending in the economy as measured by Nominal GDP. It is the very simplicity of the concept which so-called financial experts find difficult to understand and which reduces its selling appeal in the Commons.

Anybody who thinks it is just a hobby-horse of mine should look at the Red Book or the Budget Speech in both of which it has a key position.

The increase in the growth of Nominal GDP from 1987-88 to 7.5 per cent in 1987-88 is no cause for worry provided that it simply compensates for depressed growth at the beginning of 1986 and proves a temporary peak as the Treasury projections suggest. But can we really be sure?

It could be wrong-headed in the extreme to throw away all the economic gains of last year by allowing sterling to rise further. But fiscal restraints to offset lower interest rates are not politically feasible now and may be very feasible after the election.

The one practical method of preventing low interest rates from being inflationary—in which case they would also be very temporary—is to go beyond the present vague expression of intent about sterling and to lock the pound in with the D-Mark. The EMS is merely a convenient way of doing this.

Membership would also set up the right policy signals, so that there would be no need for nervous fine-tuning if there were temporary overshoots of either nominal or real GDP growth—from which we could even benefit in terms of mopping up unemployment.

Thus the case for EMS membership is no longer something with which to tease the Prime Minister, but an urgent practical need if only as an insurance premium. The necessity is now so great that I do not think any individual, however opinionated, will be able to stop it.

Step on road to recovery

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

TRUE TO expectations, the Chancellor did not produce a Budget which promised great things for industry. But his tone of cautious optimism, reinforced by measures aimed broadly at encouraging investment and exports, seemed to meet the approval of a large chunk of the UK corporate sector.

Sir Trevor Holdsworth, chairman of GKN, the engineering and motor components group, spoke for many other industrialists when he said that the Government had selected the right targets in aiming to push down interest rates, while keeping inflation under control and maintaining sterling at a competitive level.

"The cost of raising money will be cheaper, and that will be good for investment and for Britain. I think this is another step in the effort of getting us back on track," he said.

Mr David Nickson, the CBI president, also emphasised interest rates, saying that the way was now clear for single-figure rates. Each percentage point off rates saved British business £250m a year, he said. Where there was disappointment with the Chancellor's speech it mainly centred on his failure to take specific action to improve the rate of investment and spending on research and development.

These are both areas in which Britain is lagging behind its competitors, notably in the electronics industry.

The Electronic Engineering Association, for example, was lobbying hard this year for measures to give larger allowances against pre-tax profits for audited investment in R & D.

"The Government has totally ignored this problem," said Mr Peter Sachs, director of the EEA, "but meanwhile our non-trade balance keeps declining. We believe that there should be some help for innovation and some form of industrial policy."

The British Institute of Management was also critical of the Chancellor's failure to encourage the technology sector as well as the lack of moves to step up public spending in infrastructure development. But it stressed that the Government measures on VAT and inher-

ance taxes would be useful to small business, an area of significant growth in the economy.

In addition, said Mr Peter Nickson, general manager of the BHM, the Budget's help for individual managers through tax concessions on parallel pensions, lower tax rates and profit-related pay would be extremely helpful.

There was widespread agreement in industry and the City that the Chancellor's proposals on corporation tax, which will tidy up payment periods and claw back some tax in a one-time gain, would not have a significant impact on corporate treasuries. Alongside the re-

adjustments in advanced corporation tax the impact would be neutral for many companies analysts suggested.

Cash-flow is running strongly in British industry at present and profits are expected to be up by about 15 per cent this year. Most companies are also relatively undercapitalised—Hoare Govett, the broking firm, for example, says industrial companies have an average debt-equity ratio of only 12 per cent—meaning that interest payments no longer pose questions of survival.

Hence the main issue, say industrialists, is not so much the corporate balance sheet as the ability of British industry to expand and compete overseas. Interest rates are important in this, they add, because they set the scene for investment and have such a direct impact on sterling and thus on exports.

Heavy manufacturing companies made clear yesterday they did not want to see any further rise in the pound's value and that a slight reduction would be useful. Some questioned whether a 1 per cent point cut in interest rates would be sufficient to achieve the desired effect.

CHANCELLOR Lawson had the best of both worlds: he has given something to almost everyone, yet at the same time can hardly be accused of recklessness. His 1987 Budget will be very difficult for the opposition parties to attack, or for the markets to dislike.

Given the amount of revenue available, the key decision was clearly how much to give back in income tax and how far to cut the borrowing requirement. In the event, he compromised: 2p of the standard rate and borrowing down to \$4bn next year.

A cut in interest rates will presumably come today and, if not, very shortly afterwards. There seems no immediate reason to think that sterling will be unable to stand the strain.

There was also an implicit promise that if the Government is allowed to continue on its present course and there are no international setbacks, there will be further tax cuts next year after the general election. The Chancellor stressed that the target of a basic rate of 25p is still very much in mind.

By holding a further cut in reserve, he has helped shield himself from the charge that he was too hastily electing. More importantly, he chose not to take any risk of an adverse reaction from the markets. "I'm in trouble after give-away Lawson budget" must be just the sort of headline he wished to avoid.

The unusually short Budget speech—a little under an hour—was in many ways an account of the Conservatives' stewardship since they returned to power in 1979. More particularly, it traced the record since the election in 1983, when they again after Sir Geoffrey Howe's Budget of 1983, which even many Tories said at the time was unduly deflationary.

It was also a bit of a personal history of the Chancellor. It was the first time he had outlined the medium-term financial strategy as Financial Secretary to the Treasury at the beginning and insisted on the long-term aim of bringing down the public sector borrowing requirement as a percentage of gross domestic product, even though he was prepared to allow fluctuations.

His experience as Energy Secretary must have been invaluable when, as Chancellor, he was helping the Government preside first over the year-long miners' strike and then over last year's sudden collapse in the oil price. It was Mr. Lawson who, in his previous incarnation, had sought to build up coal stocks in such a way as to make the miners' strike

Political assessment

Chancellor with no need to rush

By Malcolm Rutherford



abortive and who resisted pressure from Saudi Arabia and the rest of Opec to cut North Sea oil production to try to raise prices again. With the support of Mr Peter Walker, the present Energy Secretary, he won the price rise without North Sea output being deliberately reduced.

If that had not happened, it is doubtful whether yesterday's budget would have been anything like so confident.

The most triumphant note in the Chancellor's speech, however, was reserved for the passage on the reduction of the PSBR. Mr Lawson broke off from his catalogue of figures and said: "Economic arguments are seldom concluded one way or another. This is unusual for economic policies to be held in place long enough to provide sufficient evidence. But the 1980s have been different—and,

as a result, one critically important argument has now been concluded, finally and decisively. "Throughout the period of office our critics have consistently maintained not only that a fiscal stimulus would produce real economic growth, but that without an expansionary fiscal policy sustained growth was impossible. They were wrong and they have been proved wrong."

It was as though he were proclaiming that he had taken on the bulk of the economic establishment, including the four ex-economic advisers to the Government who wrote to the Financial Times on Monday demanding a change of course and beaten them three sets to love.

There must have been one other personal pleasure: the decision to repeal the Exchange Control Act in the course of the passage of this year's

Finance Bill. When the Conservatives abolished exchange controls in 1979, they kept the Act in reserve—just in case. Now they are abolishing it altogether, while noting that other European countries are beginning to follow the same path of liberalisation.

There were let-outs, of course. He warned, for instance, that there are still serious imbalances in the US, West German and Japanese economies which could lead to further turbulence on the exchange markets. But even here there seemed to be a note of increasing confidence in international co-operation. Full British membership of the European Monetary System was not mentioned, a sea change, the Prime Minister has ruled it out. For the rest, the belief in the ability of the Group of Five to promote stability appears to be growing.

At home the cumulative effect of the Government's economic policies over time was brought out in the new figure for individual share ownership. This has risen to 81m or one-fifth of the adult population—up threefold since 1979. When this is coupled with wider home ownership, something of a sea change, the effect is cumulative. Taking Mr Lawson's four budgets together, the tax system has been simplified even if there is still some way to go.

The most obvious piece of elector-baiting was the decision to raise duties on alcohol and tobacco. It means that they will almost certainly go up rather sharply next time, but this year the Chancellor clearly wants as many friends as he can find.

Equally, the Government is not going to lose any votes by raising the tax allowance for the blind and for those aged 80 and over. It looks generous, yet does not cost very much. So why will the election be?

Now looks most unlikely that it will be on May 7, the date of the local elections, if only because the tax cuts will not take effect under PAYE until the first pay day after May 17. It could be in June, but the election course would be not to hurry and to wait instead until late September or early October. That would be in line with this Budget, which was one of gradually putting the promised pieces into place. There is no need to rush.

THOSE WHO believed that last year's dramatic cuts in US income tax rates would encourage the UK Government to embark on a similar, if more modest, programme, must have been disappointed by the limited scope of Mr Lawson's fourth Budget yesterday as the tax reform lobby were by his second.

Whereas other countries such as Japan, West Germany and France have decided to cut their higher rates of tax following the US initiative, Mr Lawson has resisted the pressure to do so. Despite the lack of political popularity for cuts in higher rate tax among the electorate at large, pressure for cuts had built up from the business lobby, the rightwing of the Conservative Party and from the increasingly vocal threats to emigrate from managers and professionally qualified workers.

Mr Lawson did not even renew an earlier hint that after the election, when the issue will be less sensitive, the top rate of tax is likely to be cut. In fact the non-indexation of the income thresholds at the 50, 55 and 60 per cent rates will increase the proportion of those facing the top marginal rates of tax over the next year.

Mr Lawson has also resisted pressures in the opposite direction, to limit mortgage interest relief to the basic rate of tax. Higher rate taxpayers will therefore continue to be able to offset their mortgage interest payments against their top marginal tax rates.

The cut in the basic rate of tax to 27 per cent was the minimum that was expected. And Mr Lawson appears to have abandoned the initiative he began in 1985 to alleviate the poverty trap by raising personal tax allowances and the lower earnings limit for National Insurance Contributions (NICs) by more than the inflation rate.

As 96 per cent of income tax-payers pay only at the basic rate, the new 27 per cent rate may appear to be in line with the top US rate for federal tax of 28 per cent. But Mr Lawson's failure to follow through another 1985 initiative, rationalising the NICs system, means that the 27 per cent rate is misleading. Out of each additional £1 paid out by an employer over the next year, only about 54p will end up in the hands of an employee earning up to £285 per week. The rest goes in tax and NICs.

In other, more narrowly targeted areas of personal tax Mr Lawson has been more generous, in particular to the rich and the elderly. The increase in the starting rate for inheritance tax from £71,000 to £90,000 (instead of £74,000 which would have been in line with inflation) will cut by a third the number of people—or at least estates—likely to pay inheritance tax. However, most of these Budget beneficiaries would in any case have been paying only small amounts of tax. So the loss to the Exchequer will be modest, an estimated £170m a year by 1988-89.

As Mr Lawson pointed out, the expected yield from inheritance tax will in real terms be 50 per cent higher than the yield from Labour's capital transfer tax in 1978-79. But the poor design of capital transfer tax in the mid-70s meant that there was bound to be an initial slump in yields followed by large increases in later years. Mr Lawson's reforms last year (when capital transfer tax was replaced by inheritance tax) and

Impact on individuals

Disappointing for the radical lobby

By Clive Wolman



this year have taken away the teeth of a gifts and bequests tax just as it was starting to bite. The other changes in personal tax appear to have been made in response to particular political pressures rather than as a result of any coherent reformist strategy. The introduction of a new and more generous category of age allowances for those aged 80 and above may have been a response to the well-publicised problems of hyperthermia suffered by the elderly during winter. The measures will have a limited effect.

The Government estimates that about 400,000 people will benefit from this measure, but only 25,000 or less will be taken out of tax altogether as a result of the change. There are more than 1.5m people aged over 80 in the UK of whom about 70 per cent are women. A high proportion of the over-

Some of the changes in pension tax provisions, in particular the introduction of greater flexibility in making additional voluntary contributions (AVCs) have the virtue of fitting in with two of the Government's objectives which have been promoted with increasing zeal since 1983. These are the encouragement of more direct forms of share ownership and of more personalised forms of pension provision.

The AVC provision will allow the individual to build up in a tax shelter a portfolio of shares or unit trusts on his own initiative and independently of his employers' occupational pension plan. This may prove to be a much more attractive alternative to many employees in their late 40s, 50s and early 60s than the option, to be granted from next year, of leaving the occupational pension scheme and setting up a personal pension plan. Employers will still be able to treat less generously those employees who opt for complete independence. And the risks of a greatly attenuated pension if the investments in a personal pension plan fail to perform well are substantial.

The AVC alternative however can be set up alongside an occupational pension scheme. The ultimate benefits will then supplement the retirement income provided by the occupational scheme. The Revenue is to retain its restrictions on the maximum amount of benefits that can be taken from a pension plan by an individual which covers both an occupational scheme and an AVC plan. This could mean that some of the benefits of the investments in an AVC plan may just go to waste. However, there are assets within an AVC plan for example by buying an indexed-linked pension annuity or writing on the joint lives of the pension contributor and his or her spouse.

These restrictions however will make the process of investing in an AVC plan more complex than just going into a bank and buying shares. It will therefore enhance the importance of sound financial advice which commission-driven insurance and pensions salesmen cannot always be relied on to provide.

Today's letters are on Page 18

THE THATCHER REVOLUTION

AFTER almost eight years as Prime Minister and 12 as leader of the Conservative Party, Margaret Thatcher has established herself as the most important figure in post-war British politics. The "Thatcher revolution" has touched all areas of political, economic and social life.

In a major attempt to assess Mrs Thatcher's record, the FT plans to publish a series of more than 20 articles. They will deal with the economy, social policy, business and foreign relations. FT writers have also been talking to "the class of '79"

— individuals for whom the year Mrs Thatcher won her first election was momentous; people who lost their jobs, left school, retired or took over key positions in industry. The series starts on Monday and will run every weekday until April 8.

El-Sayed faces bankruptcy

Personal bankruptcy is now looming for Rafat El-Sayed, less than 18 months ago Swedish television's "Swede of the year," and possibly the country's richest individual.

While Fermenta, the anti-biotics company that the Egyptian-born entrepreneur turned into one of the hottest stocks in Europe, has plunged from one crisis to another, El-Sayed's own fortunes have evaporated, leaving his creditors baying for the repayment of around \$10m.

Yesterday the battle moved in for the first time setting assets worth around \$10m, 800,000 on behalf of Gotabanken, the Swedish bank that is facing the uphill task of clawing back \$15.5m from El-Sayed. Left \$15.5m from El-Sayed's Star lawyer, who is acting for El-Sayed, admitted: "If Gotabanken wants to put him into bankruptcy, they can do it."

El-Sayed himself has spent much of his recent time travelling abroad in a desperate attempt to find financial backing to buy back control of Fermenta. But at home in Sweden, the problems only multiply.

As the creditors move in, the public prosecutor's office is pursuing its investigation of his Fermenta affairs, having officially informed him that he is suspected of serious fraud, serious book-keeping crimes, and breaches of Sweden's companies act.

At last week's latest Fermenta shareholders meeting, El-Sayed was subjected to a blistering attack from the company's outgoing chairman Kjell Brandstrom, who said it was "unbelievable that he has been able to dupe so many for so long."

Those taken in completely by El-Sayed according to Brandstrom included 20-30 banks in Sweden and abroad, a large number of highly qualified financial analysts from banks and financial journalists, as well as financial journalists, as well as the company's old board and

Men and Matters

its auditors." Sweden's biggest post-war corporate scandal still has a long way to run.

Party bird

Ewan Lauder was well aware that attaching his surname to a new Nasdaq-based investment bank would risk comments that were wry at the least.

So he did the next best thing, hatching Quail Investment Company from his middle name, Quail.

"The quail is a small European bird that doesn't fly and keeps a low profile, but is successful in its endeavours," explains Allan Campbell, the company's number two.

Like managing director Lauder, and Quail's third key man, Quentin Baer, Campbell is a veteran of the far-flung empire of Hongkong and Shanghai's Wardley merchant bank.

Since emerging from the nest in 1984, Quail has advised New in the Norwegian company's successful offer for the former Baltic Leasing, and has turned up again this week at the head of a concert party which has bought 29 per cent of W. A. Tyack, the Sheffield engineering group.

Quail, and Jersey-based Quairns Investments, see their holdings as passive, Campbell says, but board representation is being discussed.

Collection day

After working in medical research from Monday to Friday Professor Dennis Chapman becomes a money man on Sunday morning.

That is the day he devotes



"The extra pages are the only benefit from my point of view"

each week to hustling for research funds to help support a team of 20 at the Royal Free Hospital school of medicine. His persistence at his second discipline is paying off. He has just persuaded the City to put up more than £1m for a new company, Biocompatibles, which is to try to exploit some far-out ideas for new medical technology.

Chapman, who holds the view that Britain's academic world finds industrial money "inferior" to government handouts, has scant sympathy for the Save British Science campaign which has been led by some Oxford dons.

Preferring to do his own thing, Chapman has declined an

Freudian slip?

"Home" and "tatazma," I am told, are two of the most important words to know in understanding the Japanese.

They refer to the practice of concealing what you really mean (home) with an elegant euphemism or even a lie (tatazma). Japanese businessmen are, needless to say, past masters at this, and anyone dealing with them must be very careful in interpreting what he is being told.

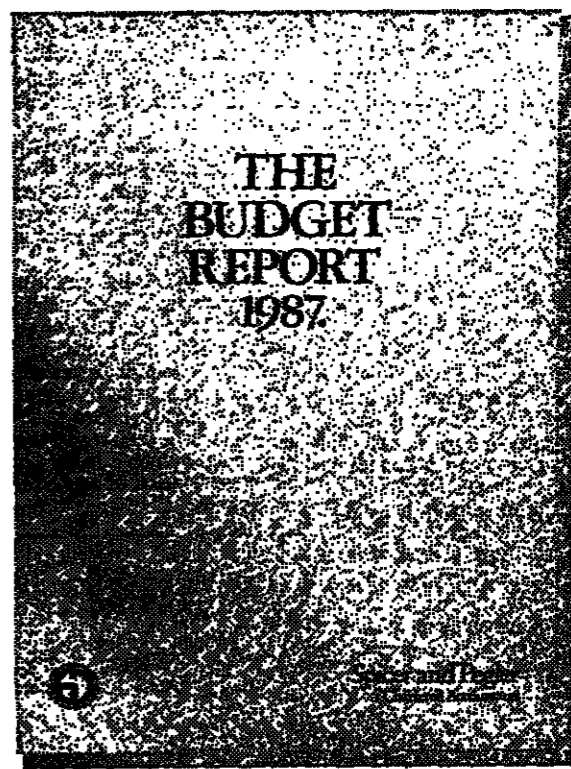
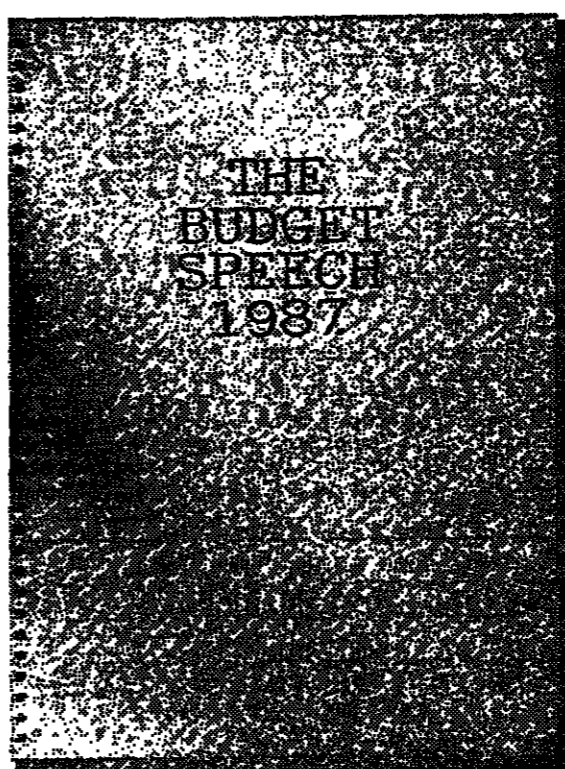
Thus, an "erratum" notice in the March newsletter of the Electronics Industries Association of Japan came as something of a surprise. Toshio Takai, president of the EIAJ, which represents Matsushita, Hitachi, Sony, and other giants that have ravaged the electronics industries of Europe and the US, was observing in the newsletter the similarity of recent market trends in the US and Japan.

He wrote: "This fact is interesting since it indicates that one nation's electronics industry cannot grow except at the sacrifice of the other."

What Takai really meant to say, the EIAJ hastened to point out, was that one nation's electronics industry cannot grow by sacrificing the other.

Some might prefer to believe that this was a rare case of the home covering up the tatazma.

Observer



What the Chancellor said.

Like most people, you probably listened avidly to the Chancellor's Budget speech yesterday.

And, also like most people, though you followed it in broad terms, you may have failed to grasp all its implications.

Which may mean you'll miss your chance to grasp any tax advantages or avoid any pitfalls.

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A question of market performance

HOW DO you turn around a car company which has lost more than £200m over the last 11 years, operates at less than 50 per cent capacity, has 12 per cent of its workforce on indefinite lay-off and is struggling to maintain sales in a booming market?

Understandably, this question has been occupying the best minds in the Fiat group since it decided last October to make a bid for Alfa Romeo which would be certain to see off a rival offer from Ford.

In a sense, this was the easiest part of the exercise and the Fiat strategy for developing prestige "Alfa-Lancia" cars under the umbrella of the state-holding company which had owned Alfa since 1936, and the Italian people. Fiat thus won the prize and the challenge to make a success of Italy's most sensitive act of privatisation.

But until recently, the question has remained: how exactly would Fiat implement a £2,750m (£2,370m) five-year investment plan, bring in new models, make profits by 1991 - and all to be accomplished without any forced redundancies?

As if peeling an onion, Fiat has been gradually supplying some of the answers over the last six weeks during long, tense sessions with nervous and divided union representatives of Alfa's 34,000 workers.

In the process, Fiat has drawn a picture of a company which had fallen far behind the competitive standards required to prosper in world markets, with production methods that were either inefficient or outdated, or both, and whose management was losing a battle for power with the organised unions.

The parallels with Fiat's own predicament in the late 1970s are not lost on Mr Cesare Annibaldi, Fiat's director for external and industrial relations, who is masterminding the negotiations with the Alfa unions. "We know the task is very difficult, but we have succeeded in

John Wyles in Rome reports on Fiat's attempt to see off the opposition in the bid for Alfa Romeo's heart



Fiat and we would not have bought Alfa if we did not think it could be done there," he said.

Essentially, the task is to raise Alfa to the standards of productivity and profitability which Fiat now enjoys. The productivity "gap" has been precisely measured at 37.5 per cent, which means, as Mr Giuseppe Tramontana, Alfa's managing director, told union leaders, "working more and working better." Two thirds of the problem stems from working practices, added Mr Tramontana, and one third from problems of factory organisation and equipment.

Alfa's search for higher productivity began long before Fiat arrived on the scene but the men of Turin are still astounded by the solution adopted in 1981-82. This borrowed from the "work group" concept of job enrichment pioneered by Sweden's Volvo but sought to apply it to the moving assembly lines at the company's two plants at Arese near Milan and Pomigliano del Arco outside Naples.

"This was a very irrational system which caused heavy losses," says Mr Annibaldi who believes that it is totally impractical to expect teams of workers to carry out efficiently a variety of tasks, which they are free to reallocate between themselves from day to day, on a

moving assembly line. "Automation is the answer to job satisfaction," he adds bluntly.

But Fiat's objectives in the union negotiations go beyond scrapping the work group system. There is a need to harmonise the working day which, for a variety of reasons, is 55 minutes shorter at Alfa than at Fiat, although pay is slightly lower. Moreover, the time allowed for assembly operations is somewhat more generous than at Fiat plants, while basic factory organisation and flow of materials leave much scope for reform at Alfa, says Mr Annibaldi.

The Fiat director says that the only change made to the company's basic plans since acquiring Alfa in January is the decision to move a share of production of the Lancia Thema to Arese and the Autobianchi Y10 to Pomigliano from the end of this year. The reason, quite simply, is the need to raise throughput at the Alfa factories and, in the process, to take capacity pressure off Fiat plants with the manufacturing launch of the new Due model.

These transfers will bring with them modernisation and further automation of the two plants - the requirement at Arese being rather more acute than at Pomigliano. The unions have been told that about 800 workers at each factory will be

laid off later this year for up to 14 months to allow modernisation of their paint shops.

In addition, the 9,200-strong workforce (of which 2,700 are laid off) at Pomigliano will fall through natural wastage and early retirement to 8,000 in 1990. Production, in the meantime, will have doubled from 90,000 to 180,000 vehicles, which will be new designs of the Alfa 33 and 75.

At Arese, the workforce will fall from 9,700 (1,500 currently laid off) to around 7,000, while output will rise from about 100,000 to between 140,000 and 150,000 vehicles - the Lancia Thema, the new Alfa 104 due out in the autumn, and a new sports car.

Union reaction has ranged from passive acceptance of the Fiat case to downright hostility. This smouldered into flames last week among the national leadership of the Communist-led CGIL confederation and the CISL factory leadership at Arese. Both are deeply opposed to abandoning work groups and their resistance brought negotiations to a breaking point last Thursday.

Although Italy has long ceased to be a geographical collection of city-states, the difference in industrial culture between Turin and Milan is somewhat greater than the 140 km which divide them.

It is still too early to say whether the "Torinese" culture will be embraced by an Alfa workforce which is more highly unionised than the 25 per cent union membership at Fiat. Anxious to appear "modern" in their attitudes to change, the national leadership of the CISL and UIL confederations certainly give every impression that they are ready to do it Fiat's way.

Much could depend, however, on whether the unions can be convinced by Fiat's promises to preserve jobs, and whether they can be correspondingly intimidated by the threat to employment implied by any failure of Fiat's strategy.

Brazilian components deal to be set up

THE FIAT GROUP is to launch a \$135m car components joint venture with the Brazilian state of Minas Gerais under a deal which brings the Italian parent full ownership of Fiat Automoveis (Fiasa), its Brazilian car producing subsidiary.

In return for surrendering its 18 per cent holding in Fiasa, Minas Gerais is taking 49 per cent of the new components company, Betim Participacoes. According to Fiat, the company's capital will be around \$150m and its labour force 3,600 people.

The Turin company said yesterday that the range of components to be produced at the new plant had not yet been decided. However, it is thought likely that some of its output will substitute for components produced in Italy by Fiat's Magneto Marelli subsidiary.

The purchase of the Minas Gerais holding in Fiasa for around \$90m brings to an end a saga which began two years ago when the state government announced that its stake was up for sale. Reports at the time suggested that the asking price would be \$450m.

Fiat's investment in the new company adds to an already significant investment in its Brazilian operations. In its first seven years production started in 1976, Fiasa's losses totalled \$90m.

Since then, the company has shown promising growth with profits of £7.2m (\$55m) in 1985 and a surplus last year which is believed to be more than 30 per cent higher.

THE LEX COLUMN

Penny plain, and tuppence coloured

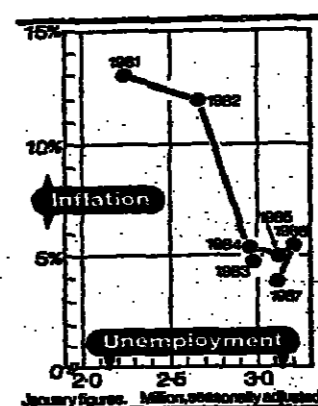
Dull but smart; that is the City of London judgment on Mr Lawson's pre-election budget. Tuppence now and tuppence in hand delivers the requisite electoral bribe in time for a June election but holds back enough for a repeat performance should it be necessary next year. By choosing to divide the revenue spoils equally between reduction in the standard rate and holding down the public-sector borrowing requirement, the Chancellor has ensured that the gilt-edged market will press for yields well below 9 per cent. If bank base rates do not fall by a full point this morning, it can only be because the banks have decided to take a half-point new and look for a full point in a week's time. The knock-on into lower mortgage rates - hence low inflation - completes the monetary side of the election package.

After these years of attempting to constrain EM3, and subsequently to steer by its movements, the abandonment of broad money targeting may occasion the odd tear among hard-line monetarists. Yet the EM3 numbers had so long since succumbed to a mixture of Goodhart's law and the falling velocity of bank accounts that their fatal retirement comes not a moment too soon.

The fact that the foreign investors in gilts do not see the growth of broad money as a sign of currency risk - or even of a sliding interest rate risk - shows how worthless a ritual it had become to set monetary targets which could not be hit. Abolition of the exchange control legislation is a more rhetorical flourish, whose only real purpose is to have a joke at the expense of Mr Hattersley.

The sole effect on equities was a reach-me-down enthusiasm that carried over from the fixed-interest markets. Even with the yield on the All Share at an historically low 3.4 per cent, the month-long surge in gilts has brought the yield gap well within bounds of normality. Aside from very specific concessions to the oil exploration sector, and the surprising lenience towards the companies which exploit human frailties - drink, tobacco and betting (on-course only, bad luck Searns and Ladbrokes) - there was little adjustment for equity market-makers to make. They just marked the whole lot up, and then down again.

Those companies unlucky enough still to have large amounts of unmit-



But no Lawson budget would be complete without some measure - whether or not it needs legislative complexity - designed to clutter the financial sector. The ruling that banks and financial service companies will in future have to pick up the £300m tab for their Variable Annuity Insurance (VAT) is a case in point. And in the giving of huge tax-free sums on retirement will do no harm to anyone but fully depreciated spending young men.

West Germany

And now for the bad news. Some faces greeted Japan's worst GNP figures for 12 years but in West Germany the roots continue.

In Frankfurt even the "Aids of fact" seems to work in reverse at Bayer and Allianz (the chemical company's main insurers) as covered yesterday following reports of legal claims from hemophiliacs. The weak domestically engineered rally of three weeks ago had already been well buried by the VW forex scandal which helped to send the Commerzbank index tumbling and underlining just how fragile the German market can be.

Unfortunately timing, then, for the heaviest stream of share placements in the market's history. And particularly irksome for the highest of the lot at Veba, the energy conglomerate, where the Government had been due to unload its 25.6 per cent stake later this month.

A significant delay in the Veba sale is probably wise - particularly as the Government is well placed to know if and when a refinancing boost to the markets may be coming.

However, quoted stocks in West Germany are not usually good barometers of reflection and in any case the pre-VW Hochzeit placing was only achieved at a massive discount. So the Government may have to wait a long time to get back to its original hope of raising nearly DM 5m.

Further, the expected delay has more mundane roots in an unorthodox institutional response despite Veba's remarkably attractive yield (especially for domestic investors). Or even in the Government's realisation that selling its remaining VW stake is going to be even more difficult unless Veba is a hit.

US urged to curb oil imports

By William Hall in Washington

RECENT RAPID growth in US oil imports and increasing long-term reliance on Middle Eastern oil supplies have potentially serious implications for US national security, according to a US Administration study.

Mr John Herrington, the US Energy Secretary, yesterday signalled that the US Administration's "benign neglect" of the domestic oil industry, which has been thrown into turmoil by the recent collapse in world oil prices, was over. He recommended urgent action to curb the rapid growth in imports and the "devastation" of the US oil industry.

"The crisis in the domestic petroleum industry, an industry that is critical to our energy security, is taking an enormous toll, and is creating serious problems for the future," said Mr Herrington in the foreword to a 350-page report on "Energy Security" which was released in Washington yesterday.

The report says employment in the US oil industry fell by 150,000 in 1986 and domestic oil production fell by 800,000 barrels a day and is expected to fall by another 400,000 b/d in 1987. Oil imports increased by almost 1m barrels a day to 5.5m b/d in 1986 and are forecast to rise to between 8m and 10m b/d, or at least 50 per cent of US consumption, by the early 1990.

"It is clear, based on these findings and this review, that initiatives must be taken to strengthen the US oil and gas industry and reduce our growing dependence on insecure imported oil," said Mr Herrington, who noted that "the suddenness and severity of the oil market collapse has devastated significant segments of the US petroleum industry."

The US Administration came under fire last year for ignoring the impact of the collapse in world oil prices on the domestic industry and important oil-producing states such as Texas, Louisiana and Oklahoma.

Fairchild seeks buyout finance as Fujitsu deal falls through

BY LOUISE KEHOE IN SAN FRANCISCO

FAIRCHILD SEMICONDUCTOR of the US said yesterday that it would move quickly ahead with alternative financing plans following the cancellation of proposals for Fujitsu to acquire an 80 per cent stake from Schlumberger, Fairchild's parent company.

"We are shocked and extremely disappointed by news that the transaction has been cancelled due to political pressure," said Fairchild, "but we are moving ahead with alternative plans."

Fairchild's management is understood to be seeking financial backing for a leveraged buy-out and Mr Donald Brooks, president, met Schlumberger officials yesterday in New York to discuss the proposal.

No alternative offers to acquire Fairchild have been made, the company said, although it did not rule out consideration of any offer that might emerge.

Cancellation of the Fujitsu deal, which would have merged the two companies' US and European semiconductor operations, represents a major setback for Fairchild.

"The company became a pawn in a high-powered political game," analysts said yesterday.

Fujitsu and Schlumberger are understood to have cancelled the proposed transaction following statements by Mr Malcolm Baldrige, US Commerce Secretary, that closely linked the deal to a supercomputer trade row between the US and Japan.

"Fujitsu is a major supercomputer manufacturer," Mr Baldrige pointed out. "The proposed Fairchild acquisition comes at a time when the Japanese have essentially told us that they cannot buy US supercomputers for government and university use."

Mr Baldrige also called for a Cabinet-level review of the acquisition. US reports, later denied, that Mr Casper Weinberger, Defense Secretary, had joined Mr Baldrige in seeking a Cabinet review of the deal on the basis of national security concern also appear to have strongly influenced the Japanese.

Fairchild is the second largest supplier of chips to US military contractors with military sales last year of \$150m.

The Fujitsu-Fairchild merger was widely seen as a threat to the US semiconductor industry because it would have given Fujitsu access to key semiconductor distributors in the US who handle about 25 per cent of all US chip sales. To date, Japanese companies have been effectively excluded from the distributors by US firms which objected to sharing distributors with their Japanese competitors.

Industrial countries to limit use of aid in export credit grants

BY PETER MONTAGNON, WORLD TRADE EDITOR IN LONDON

MAJOR industrial countries yesterday agreed in principle on new rules designed to limit the use of aid in subsidising export credits to the developing world.

The agreement was announced by the Paris-based Organisation for Economic Co-operation and Development (OECD) after three countries - Japan, Austria and Switzerland - finally signalled their readiness to accept the proposals.

Mr John Coleman, the senior Canadian trade official who chaired the OECD discussions, said the new rules would mark "significant progress towards the elimination of subsidies on commercial export credits."

Under changes now due to come

into effect from July, it will become more expensive for lending countries to subsidise export credits through an additional injection of aid.

The minimum permissible level of aid in so-called "mixed-credits" is to be increased in two stages from the current 25 per cent to 35 per cent by July next year. Changes in the way the cash value of the aid is calculated will make it harder for low-interest countries to meet this minimum level, as their own low cost of funds will be taken into account.

Japan, Austria and Switzerland delayed their acceptance of the deal until the last minute because the changes will make their aid efforts much more expensive. All three

countries have imposed technical conditions on their acceptance, and these will still have to be discussed at a special implementation meeting at the OECD in mid-April.

Mr Coleman, however, said that the technical conditions "do not directly affect elements of the package."

Japan, for example, has asked that the new rules for calculating the value of aid in mixed credits should not be extended to general OECD calculations of the value of its official development assistance.

If they were, the reported overall value of Japanese development aid would drop sharply, which could be bad for its image in the developing world.

Manila to privatise oil company

By Richard Gourlay in Manila

THE Government-owned Philippine National Oil Corporation board has approved a plan for the combined sale of its marketing chain and refinery in what could be the country's first major privatisation since President Corason Aquino came to power.

British Petroleum, Elf Aquitaine and Kuwait Petroleum are among the companies seriously interested in the purchase, said Mr Edgardo Defensor, Deputy Finance Secretary. BP confirmed that it was interested and was waiting for the Philippine Government to clarify its intentions.

Citicorp, acting as consultant to PNOC, earlier this month proposed that the Government sell 65 per cent of Petron, consisting of the Bataan Refining Corp and Petrophil Corp, the distribution arm. PNOC will retain 35 per cent of Petron, foreign investors will be allowed up to 40 per cent and the rest will be sold to Filipinos.

No single foreign investor would be allowed more than a 30 per cent holding in order that PNOC could maintain its blocking minority interest, Mr Defensor said.

Citicorp's plan will have to be approved by the Government's committee on privatisation when its chairman, Mr Jaime Ongpin, who is also Finance Secretary, returns from New York, where he is renegotiating the country's commercial debt.

Petron controls 900 retail outlets, a third of the country's gas stations, and has about a third of the country's \$1bn a year retail market, Mr Defensor said. The refinery has a capacity of 155,000 barrels per day but has been operating at only 33 per cent capacity.

Citicorp has valued Petron's net assets at between \$63m and \$105m. Valuation of earnings has been complicated by the past practice of passing profits from the marketing company to PNOC.



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World Weather

Area	Temp	Wind	Cloud	Precip	Area	Temp	Wind	Cloud	Precip
Alaska	13	15	10	0	Spain	18	15	10	0
Algeria	15	15	10	0	Sweden	17	15	10	0
Australia	4	30	10	0	Switzerland	17	15	10	0
Bahamas	24	15	10	0	Taiwan	17	15	10	0
Bahrain	24	15	10	0	Tanzania	17	15	10	0
Bangkok	26	15	10	0	Togo	17	15	10	0
Barcelona	12	15	10	0	Tunisia	17	15	10	0
Bombay	26	15	10	0	Turkey	17	15	10	0
Buenos Aires	10	15	10	0	Uganda	17	15	10	0
Calcutta	26	15	10	0	Ukraine	17	15	10	0
Cairo	18	15	10	0	USA	17	15	10	0
Cardiff	10	15	10	0	USSR	17	15	10	0
Chongqing	12	15	10	0	Vietnam	17	15	10	0
Copenhagen	10	15	10	0	Yemen	17	15	10	0
Dakar	26	15	10	0	Zambia	17	15	10	0
Dhaka	26	15	10	0	Zimbabwe	17	15	10	0
Dublin	10	15	10	0					
Edinburgh	10	15	10	0					
Hankow	12	15	10	0					
Hong Kong	26	15	10	0					
Kobe	12	15	10	0					
London	10	15	10	0					
Los Angeles	12	15	10	0					
Lyons	10	15	10	0					
Manila	26	15	10	0					
Moscow	17	15	10	0					
Mumbai	26	15	10	0					
Nairobi	17	15	10	0					
Paris	10	15	10	0					
Rangoon	26	15	10	0					
Rio de Janeiro	18	15	10	0					
Rome	18	15	10	0					
Sao Paulo	18	15	10	0					
Seoul	12	15	10	0					
Shanghai	12	15	10	0					
Singapore	26	15	10	0					
Sydney	12	15	10	0					
Taipei	12	15	10	0					
Tokyo	12	15	10	0					
Toronto	10	15	10	0					
Urumqi	12	15	10	0					
Yokohama	12	15	10	0					

Budget paves way for early election

Continued from Page 1

Yesterday's tax reduction was accompanied by a £115m package of measures to help small companies, and by a string of changes to streamline corporation tax and to close loopholes in the payment of value added tax.

Mr Lawson also announced new tax incentives to encourage the spread of profit-related pay, and more favourable tax treatment for personal pensions.

Mr Lawson's package is likely to prompt a 1 per cent point cut in UK interest rates, with perhaps half of that coming as early as today. Conservative MPs say the budget was a good, if rather lukewarm, springboard for the election, but opposition parties accused the

Government of missing an opportunity of helping the unemployed.

From October, employees will be able to "top up" their occupational pension schemes with tax-free contributions to a plan of their choice. At the same time, the tax authorities will try to curb abuses of the system by restricting excessive tax relief for the most highly-paid.

The combination of tax cuts and a lower borrowing target in the budget reflect what Mr Lawson acknowledged as the "remarkable buoyancy" of non-oil tax receipts, particularly corporation tax.

The Treasury's receipts from those taxes more than offset a £7bn fall in North Sea revenues and the

Government's decision last autumn to raise public spending in 1987/88 by nearly £5bn.

The decision to use more than half of the £3.8bn available in the budget to cut the public borrowing target for 1987/88 followed official figures indicating that borrowing in the current year will undershoot by £2bn its original £7bn target.

Lower bank base rates are likely to prompt a cut in home loan rates, providing an added boost to most people's finances even before the tax cuts take effect in the first pay packet after May 17.

The 2p reduction in the basic rate will add around £3 per week to the income of a man on average earnings.

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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Wednesday March 18 1987

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Fresh pressure on AT&T over bid for CGCT

By PAUL BETTS IN PARIS

AMERICAN Telephone and Telegraph (AT&T) and Philips of the Netherlands may be forced to modify the financial structure of the joint company they are forming with SAT, the French telecommunications group, to remain in the international bidding for CGCT, France's second-largest public telephone exchange manufacturer.

The AT&T-Philips partnership (APT) has long been seen as the front-runner to gain control of CGCT. However, it has faced an increasingly strong challenge from Siemens of West Germany, Ericsson of Sweden and the Canadian Northern Telecom group.

Siemens was also given an added boost this week by the public statement of Mr. Jacques Delors, president of the European Commission and a former French Finance Minister, in favour of a European solution for CGCT involving the West German group.

APT and SAT officials yesterday held a press conference in Paris to try to promote their bid for CGCT, due to be privatised by the end of next month. However, they were visibly embarrassed by questions on the structure of their proposed consortium bidding for CGCT.

Under the French Government's privatisation rules, the foreign candidates interested in CGCT must form a French-dominated consortium to ensure that their share of the telecommunications group does not exceed 20 per cent - the ceiling of foreign ownership for privatised French companies.

Ericsson and Siemens have formed joint ventures with Matra and Bouygues in the case of Ericsson, and Jeumont-Schneider in the case of Siemens, to ensure the foreign ownership rules are met. APT has also formed such a

grouping but doubts have been raised by French officials over the effective "Frenchness" of the consortium. Apart from APT and SAT, the grouping also includes the French Compagnie du Midi group and five French unit trusts owned by the Dutch-controlled Neufville-Schlumberger-Mallet bank and by Morgan Guaranty. It is the French nature of the unit trusts which is questioned.

Mr. Francois le Monestrel, managing director of SAT, acknowledged yesterday that the structure of the APT-SAT consortium was posing a problem. The Finance Ministry is expected to take a decision on this issue in the next 12 days. Mr. le Monestrel suggested that APT and SAT would consider modifying the structure of the partnership.

APT and SAT sought to argue yesterday the industrial merits of their proposal to acquire CGCT. They claimed that the APT SESS-PRX public digital switch was well suited to the needs of the French telecommunications administration, the Direction Generale des Telecommunications (DGT). CGCT will give the winner of the bidding battle initial access to 16 per cent of the French public switch market.

APT and SAT are also planning to invest more than FFY 240m (\$38m) in CGCT's French research centre and manufacturing plant. Moreover, the two groups said there were synergies between APT and SAT in the field of telecommunications - an annual market of FFY 7bn in France compared with FFY 1.6bn for public switching.

Mr. Wim Huisman, vice-president of APT, also added that Philips and APT had concluded or envisaged finalising other agreements with French companies including the development of earth stations.

Taft family raises bid for TV network

By Our New York Staff

TAFT BROADCASTING, the Cincinnati-based television station operator which is prey to warring shareholders groups, yesterday received an improved \$1.36bn offer from Mr. Dudley Taft, a former president and the son of the company's founder.

Taft's stock price soared 33% to \$156 in early trading yesterday, apparently in expectation of an auction for control of the heavily indebted broadcasting group.

Mr. Taft is making his bid with other members of his family and a Providence, Rhode Island, investment firm called Narragansett Capital.

Last year he was ousted as president of Taft when Mr. Robert Bass, a representative of the wealthy Bass family of Texas, built up a 28 per cent stake.

Since then the Bass group has increased its stake to 25 per cent and caused resentment among the Tafts, a distinguished Ohio family which has provided a US president, by disposing of five independent television stations and seeking to dispose of other most valuable assets.

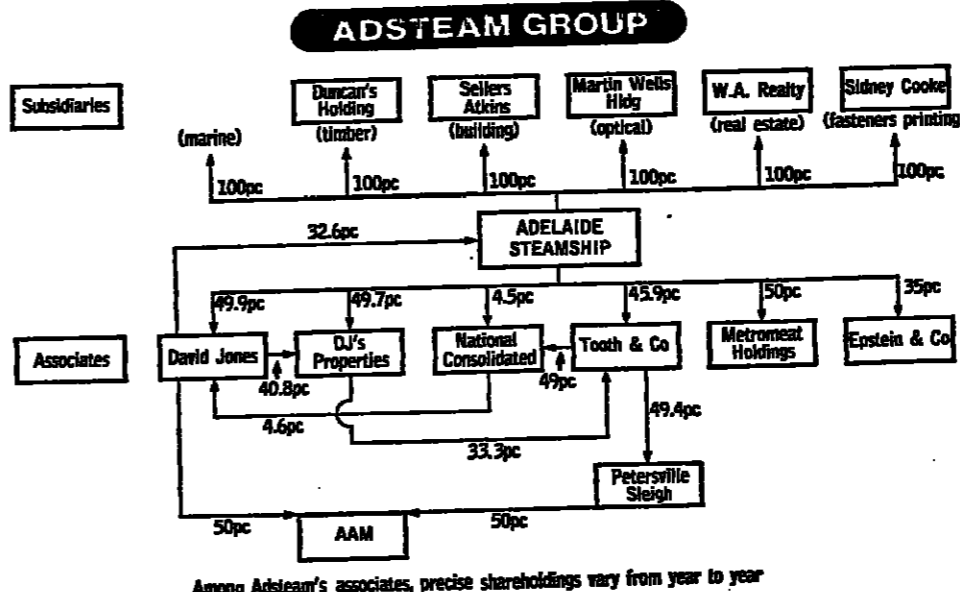
Mr. Carl Lindner, a Cincinnati investor who is Taft's second-largest shareholder after the Bass group, is apparently considering a bid. He is widely seen as holding the balance of power between the two families.

Last week, Taft's board rejected an offer of \$145 a share from Mr. Taft as inadequate. In a letter to the board yesterday, Mr. Taft said his group would be prepared to offer shareholders "value in excess of \$150 a share."

More international company news on Pages 32-34 and 47

Chris Sherwell looks at the strategy that has created a lucrative Australian empire

Adsteam finds a touchstone to success



Among Adsteam's associates, precise shareholdings vary from year to year

Whereas the core businesses produced just A\$25m in operating profit from A\$260m in revenue, other investments - notably associates and, through them, the share markets - generated A\$103m in profit from revenue of A\$157m.

So it is Adsteam associates which attract investors' attention when they look at the group - and here the ownership structure becomes more complicated.

Associates include David Jones, the department store; Tooth and Co, which is involved in wines, food distribution, hotels and property development; and National Consolidated, a manufacturing company.

Ahead, the most important is AAM in the US, which is owned by David Jones and another associate, Petersville Steigh.

Adsteam holds less than 50 per cent in each of the eight most important of its associates. As with AAM, some of these in turn hold similar stakes in each other.

The main interests of DJ's properties, for example, are its investments in Tooth and in a company called Clark Rubber. David Jones even has a 33 per cent cross holding in Adsteam.

Mr. Spalvin says he has no intention of changing the successful formula of a small head office setting strict financial performance criteria and leaving individual teams to run their own operations.

"It's a question of motivation," he says. "Managers and employees can fly their own flag, be proud of their heritage, have an identity." Rewards take the form of shares in the companies they run, many of which remain publicly quoted.

Complicating the structure further, Adsteam associates hold major portfolios of investments in listed and unlisted companies.

Stakes are not only held by one associate in another. They are also held in a wide range of other companies, public and non-public, both long and short-term.

Precise shareholdings among associates themselves vary from year to year. Such flexibility allows considerable juggling of assets in the cause of tax efficiency, which is an

other important driving force for group activities.

The shift in Adsteam's approach came with the takeover of David Jones in 1980. Motivating it, says Mr. Spalvin, was a simple desire: "to make money." Profit has soared from A\$44m to A\$123m during the past five years. Although turnover for Adsteam and its subsidiaries has risen only from A\$354m to A\$417m, the aggregate turnover figure for the group and its associates is now put at A\$3.6bn.

Revenue declined nearly 12 per cent to A\$157m in the latest first half to December, but the results announced last Friday should show net earnings up 35 per cent to A\$75m.

Typically, Mr. Spalvin moves into a target company only on the basis of strict financial criteria - in particular where the share price is below the net tangible asset value per share - and a perception that the company can be turned round.

In the process he has acquired a reputation as one of Australia's most outstanding takeover operators.

Mr. Spalvin likes to think of his small head office team as a catalyst, acting as a kind of bank and providing "three Ms" - money, materials and management - so that the successful associates can run themselves.

Debt at the end of 1985-86 was put at A\$468m, up from A\$297m the previous year. But Mr. Spalvin says group liquidity is such that all money market borrowings can be repaid and committed unused bank facilities are in excess of A\$1bn.

As for the group's immediate direction, Mr. Spalvin is non-committal. Although constantly monitoring trends, his pessimistic views on Australia's high-flying share market are well known.

He is also gloomy about overall economic outlook - which is why action should be expected abroad rather than at home. If this is not in the US, where he has already established a firm bridgehead, then the most likely alternative is the UK, where he has become well known.

Australia ushers in new bank

By Terry Povey in London

THE BIRTH of a new kind of institution for Australia - what would be called an old-fashioned investment bank elsewhere - was yesterday being heralded with a blaze of publicity because of the galaxy of "star" names involved from the commercial and political world.

Putting up the A\$50m (US\$34m) initial capital for Whitlam Turnbull & Co on a 50-50 basis are Mr. Larry Adler's FAI Insurance and Mr. Kerry Packer's Consolidated Press Holdings.

Last night Mr. Adler said there were no plans for the private bank, which will specialise in providing corporate advice and in making its own investments, to go public. "In the tradition of US merchant banking, privacy is very important," he said.

Mr. Adler also said that this was FAI's third involvement in the banking world. It holds almost 10 per cent of Advance Bank in Australia and has built up a 14.5 per cent holding in Hill Samuel in the UK.

Whitlam Turnbull is to be run by three executives. One of these is Mr. Nick Whitlam, son of Mr. Gough Whitlam, a former Labor Prime Minister, who yesterday resigned from the post of managing director of the State Bank of New South Wales.

Another will be Mr. Malcolm Turnbull, who at 32 has achieved fame as the lawyer for Mr. Peter Wright, the former MIB official whose memoirs have recently been the subject of a court case in Australia. Mr. Turnbull will leave his law practice to become a full-time executive at the bank.

The third member of the management team, also on a full-time basis, will be the 60-year old Mr. Neville "Nifty" Wren QC, Labor premier of New South Wales for 10 years.

SEC launches investigation into dealings by Icahn

By JAMES BUCHAN IN NEW YORK

MR. CARL ICANH, chairman of Trans World Airlines and one of the most feared corporate raiders in the US, is under investigation by regulatory authorities for possible violations of securities laws.

The investigation by the Securities and Exchange Commission (SEC), which has been confirmed by Mr. Icahn's office, for the first time formally embroils a corporate raider in Wall Street's widening scandal.

In a filing with the SEC to record its acquisition of 15 per cent of USAir, a regional carrier it bid for unsuccessfully, TWA said that the commission had issued a "formal order of investigation" against Mr. Icahn.

The order, which authorises the SEC staff to subpoena witnesses and documents, was issued on November 12 last year, two days before Mr. Ivan Boesky, a specialist in takeover stocks, stunned Wall Street by revealing the existence of a massive insider-trading ring.

According to the filing, the order empowered staff "to conduct a private investigation to determine whether any persons (Carl C. Icahn) have engaged in certain acts in violation of the Exchange Act... in connection with the acquisition



Mr. Carl Icahn

of more than 5 per cent of the shares of certain unspecified issuers and the disposition of such shares."

Under US securities law, the purchase of 5 per cent of a company must be filed with the SEC. The SEC said it was not its proce-

dure to confirm or deny orders of investigation. Lawyers familiar with SEC practice said such orders were only issued in the case of a focused investigation with a chance of progressing to civil proceedings.

So far the SEC investigation has led to charges against a number of investment bankers as well as admissions by others of insider trading in takeover stocks.

Mr. Icahn, who made large profits from buying and selling blocks of stock in takeover companies as Unipac, R.F. Goodrich, Phillips and Gulf & Western and selling them back to management, said last November that he had never "had any business arrangements" or partnerships with Mr. Boesky with respect to the securities of any company.

In a letter to TWA employees dated November 10, Mr. Icahn said: "While it is true that the SEC has made certain inquiries, no allegations have been made against me by the SEC, and I have no reason to believe that any will be made."

Mr. Icahn gained control of TWA at the beginning of 1985. In the filing, TWA also announced it was dropping its \$1.65bn bid for control of USAir. USAir had agreed to merge with Piedmont Aviation.

Japan Line plans to cut debt

By YOKO SHIBATA IN TOKYO

JAPAN LINE, the financially troubled tanker operator, hopes for a ¥7bn (\$46m) capital increase by allocating \$3.5m shares, to 11 financial institutions at a price of ¥110 each. The company's capital will be boosted to ¥31.5bn.

A total of 74 per cent of the new shares will be allotted to the Industrial Bank of Japan (IBJ), which has been financially supporting Japan Line since the mid-1970s.

The shipping company intends to use the proceeds from the capital increase to repay part of the ¥28.8bn owed to Japanese financial institutions.

Earlier this month, IBJ and other banks put forward a rescue plan for Japan Line. The four major creditor banks will write off ¥18bn of claims, ¥15bn of which is owed to IBJ. About ¥7bn of claims will be converted into new Japan Line

shares to be held by the banks instead of being written off. Japan Line expects to report a pre-tax loss for the year of ¥19.2bn and a net loss of ¥3.7bn on sales of ¥130.5bn. Its cumulative debts will rise to ¥83.3bn.

However, the company will be able to wipe off excess liabilities, thanks to the writing down of liabilities and the planned capital increase.

Mitsubishi Chemical edges ahead

By Our Tokyo Staff

MITSUBISHI CHEMICAL, Japan's largest integrated chemical company, posted pre-tax profits of ¥24,060m (\$158m) for the fiscal year to January 1987, up 1.2 per cent on a year before. Net profits were ¥7,011m, up 3 per cent. It intends to keep its per-share dividend unchanged at ¥5 for the year.

Mitsubishi Chemical attributed the earnings gain to a sharp improvement in its balance on financial items, which more than offset a double-digit decline in operating profits.

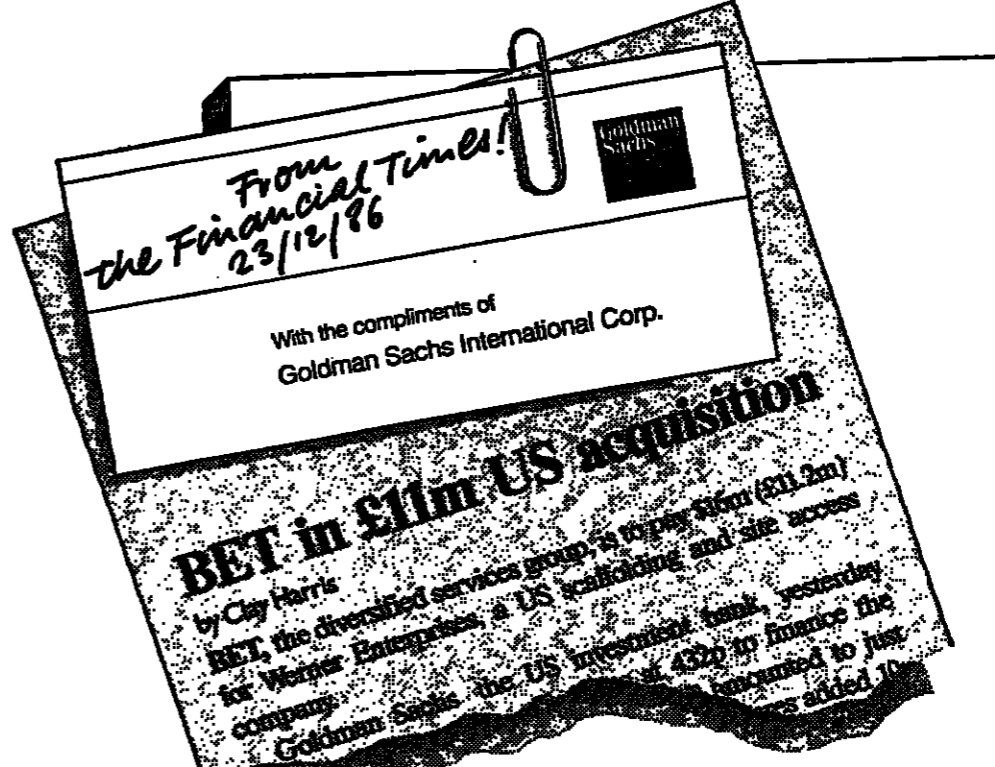
Overall sales plunged 22.2 per cent to ¥936bn, due to softened market prices of petrochemical and chemical products, sluggish demand for machine tools and reduced exports caused by the year's appreciation. However, its balance on financial items improved by about ¥6.5bn, thanks to falling interest rates and low-cost financing through the issue of domestic convertible bonds.

For the current fiscal year to January 1988, the group projects its

sales at ¥910bn. The company expects the coke market to bottom out and firm demand for plastics and farm-related materials. Its new divisions, including information and electronic equipment, compound materials and pharmaceuticals are expected to fare well.

Its non-operating profits are expected to improve further thanks to lower interest rates and smaller borrowings. Its pre-tax profits are expected to stay at the previous year's level.

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Who says "Big Bang" was all bad news for the private investor?

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Fecsa announces debt moratorium

FUERZAS ELECTRICAS de Catalunya (Fecsa), the electrical utility, whose financial troubles were revealed last month when its shares were suspended on the Madrid Stock Exchange, yesterday announced an indefinite moratorium on its principal repayments as part of a debt rescheduling operation, writes Tom Burns in Madrid.

The Barcelona-based utility, sixth-largest in Spain, said it was starting negotiations with its national and international creditors and that it would continue to pay interest, punctually and with all normality.

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New Issue

This announcement appears as a matter of record only.

March, 1987

INTL. COMPANIES AND FINANCE

Bernard Simon on how a Canadian metals group is reacting to price falls

Falconbridge tightens its belt

AS MR BILL JAMES vigorously rubs his yellow marker on a pie chart in the annual report which Falconbridge will publish later this week, the chairman and chief executive of the Canadian base-metal producer laments that the company can no longer afford to tell its story in full colour.

The austere annual report is one sign of how tightly Falconbridge has pulled in its belt to cope with depressed nickel, zinc and copper prices. But even without full colour, the chart in question vividly encapsulates the recent events which

Ontario zinc, copper and gold producer whose sprawling metallurgical plant is among the most modern in North America.

Critics think that Falconbridge paid too much for Kidd Creek. The purchase is the main reason why Falconbridge's debt has ballooned from C\$284m at the end of 1985 to C\$1.2m now. Interest charges will reach C\$80m this year.

But, at a time when Falconbridge is losing heavily on its nickel business, Kidd Creek's low-cost operations are a godsend. Cash flow from the new subsidiary covered all Falconbridge's finance charges last year. Even at present depressed zinc and copper prices, Kidd Creek is generating a little extra for its parent's coffers.

The problem is that the wait may be a long one. Falconbridge itself predicts that world nickel supplies will exceed consumption by 80m lbs this year, more than the entire output from its main cluster of mines near Sudbury, north of Toronto.

The chart shows that nickel contributed only 28 per cent of revenues from Falconbridge's mines in 1986, compared with 54 per cent the previous year. Copper's share jumped from 12 per cent to 31 per cent and zinc from only 1 per cent to 17 per cent.

The shifting pattern stems mainly from Falconbridge's bold C\$15m (US\$40m) acquisition in January 1986 of a controlling interest in Kidd Creek Mines, the northern

tool, is thus preparing to administer more of the cost-cutting medicine he has prescribed in big doses at Falconbridge since taking over as chief executive four years ago.

Mr James says that "you can squeeze (costs) forever." The big question is how much harder he can squeeze without being forced to accept the capacity cuts which Falconbridge wants to avoid or selling off assets which it wants to keep.

The workforce at the Sudbury operations has already shrunk from 4,000 in 1982 to 2,250. Another 350 layoffs were announced at the end of last year.

The cutbacks at head office in Toronto have been equally severe. Only 152 jobs are left after dovetailing Kidd Creek's 180-strong corporate office with the 132 people at Falconbridge. The two companies' marketing and exploration departments have been combined.

Falconbridge has sold all its peripheral businesses. It raised C\$80m in 1986 from the sale of interests in three gold mines and a 50 per cent stake in a Quebec copper producer. It recently found another US\$75m by selling a 49 per cent holding in the South African platinum producer, Western Platinum, to the British conglomerate, Lonmin.

Proceeds from last year's disposals turned a C\$15.5m loss into a bottom-line profit of C\$70.3m on revenues of C\$1.15m. Earnings in 1985 were C\$38.5m from revenues of C\$890m. According to Mr James,

"we're fundamentally down to core assets now." These consist of the Sudbury mines, a large nickel refinery at Kristiansand, Norway, a ferro-nickel facility in the Dominican Republic, Kidd Creek, and Indumina, a North American producer of non-metallic industrial minerals and specialised castings.

Among the remaining assets, the problem child is the Sudbury complex, which consists of six nickel/copper mines, two concentrators and a smelter.

Despite the cost-cutting of the past few years, Sudbury is not com-

petitive in the sprawling over-supplied market. A widely dispersed orebody keeps development costs high. In addition, Falconbridge spends an average of C\$40,000 a year on each of its unionised Sudbury workers, compared with C\$10,000 on each (non-unionised) Dominican worker and C\$3,000 per worker at two small gold mines the company owns in Zimbabwe.

According to Mr James, "as these metal prices, Sudbury is not that attractive." But he adds that "we've determined to make Sudbury go in the long haul and we're determined to cut costs significantly."

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Interest Amount per U.S. \$10,000 Note due 18th September 1987	U.S. \$335.42

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Arab Banking Corporation (B.S.C.)

Floating Rate Notes Due 1996

Interest Rate	6½% per annum
Interest Period	18th March 1987 18th September 1987
Interest Amount per U.S. \$10,000 Note due 18th September 1987	U.S. \$335.61

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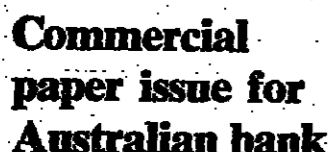
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Floaters stage moderate rally on bargain hunting

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CONCLUSIONS

1. *Journal of the American Medical Association*, 1997; 277: 1001-1005.

INTERNATIONAL COMPANIES and FINANCE

PLACING OF MINORITY HOLDING SPARKS RENEWED CRITICISM

Mexico sells third bank stake

BY DAVID GARDNER IN MEXICO CITY

THE MEXICAN Government yesterday sold off minority stakes in a third state-owned bank, watched by critics who saw last month's sale in Banamex and Bancomer - the country's two major commercial banks - as at least partly an exercise in political patronage.

Banca Serfin, the country's third-largest commercial bank, is selling off share certificates - known as Certificados de Aportación Patrimonial (CAPs) - worth just over 27bn pesos (\$2.4m) or 34 per cent of its paid-up capital.

In line with earlier sales, Serfin's placing is in the form of a new capital issue, and it is understood that

the stock is being distributed at most wholly among employees and clients.

The Banamex and Bancomer issues - which fulfilled a pledge by the Government to privatise 34 per cent of bank stocks after the commercial banking system was expropriated in 1982 - sparked a public controversy when the price of their CAPs shot up as soon as they began trading.

Partly in response to this, the Serfin issue is being priced at 8,000 pesos a share, an historic price/earnings ratio of two, or effective price to net worth ratio of 56 per cent.

This contrasts with the Bancomer and Banamex issues, which were priced at around 1.5 times net earnings, for an effective price to net worth ratio of about 39 per cent.

Share certificates in these two banks, which each hold about a quarter of all commercial banking assets, are being priced in the secondary market at a p/e of four and five, respectively. This compares with a current market average of 18 times historic earnings and for the select few who managed to buy the CAPs, signifies gains of between 200 and 300 per cent since issue.

Serfin, which is half the size, has clearly been priced higher and can

expect to trade at a lower p/e ratio. But even if it rises to around 3.5 - as it shows every sign of doing - investors can expect a 75 per cent profit on the first day of trading.

A further difference with last month's issue is that Serfin is only issuing CAPs, whereas Bancomer and Banamex issued packages made up of one share certificate and two convertible bonds.

The latter are convertible into CAPs on predetermined redemption dates at market price minus a discount of 25 per cent - which implies that the two banks still have part of their capital expansion still to come in.

Advanced Micro plans new chip

By Louise Kefauver in San Francisco

ADVANCED MICRO Devices, the battered US semiconductor manufacturer, which reported losses of \$130m over the past 18 months, plans to build a micro which, it claims, will outperform any currently available.

"The AM29000, 32-bit microprocessor is the most significant product introduced by advanced micro devices in the company's 17-year history," Mr Tony Holbrook, president, said. "We are staking our reputation on this chip."

Announcing the new chip in San Francisco on Monday, AMD conceded it had yet to make a working sample but said it would have the chip in production by early next year.

AMD aims to persuade manufacturers of engineering workstations to adopt its chip for their next generation products. Officials say the design has been greeted "with great interest" by companies including Apple and IBM, which currently use Motorola and Intel microprocessors.

Although a major supplier of microprocessors and other complex chips, Silicon Valley-based AMD has not previously designed its microprocessors. AMD manufactures micros under licence from neighbouring Intel.

The market for high-performance microprocessors is projected to total \$200m by the end of the decade. Peripheral chips that work beside the microprocessor "brain" chip will bring the market value to more than \$1bn, AMD reckons.

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18th March, 1987

Gencorp margins suffer pricing competition

By Our Financial Staff

GENCORP, the fifth largest US tyre company, has reported a fall in first-quarter net earnings to \$17m, or 77 cents a share, from \$19m, or 84 cents, in the quarter, which ended February 28, rose to \$60m from \$61m.

The tyre segment reported an operating profit of \$9m, down from \$12m a year ago, on flat sales. Profit margins were aggravated by competitive pricing and costs associated with consolidation of manufacturing operations.

Gencorp said the adoption of a new pension accounting standard during the first quarter lowered pension costs \$1.3m after taxes. But this was offset by an increase in estimated pension costs related to pension plan amendments adopted at the start of the current year.

Swiss bank expects to raise SFr 50m through rights issue

BY WILLIAM DULLFORCE IN GENEVA

BANCA della Svizzera Italiana (BSI), the Lugano-based Swiss bank, plans to raise about SFr 50m (\$32.5m) in new share capital through a 1-for-12 rights issue at a price three times par value, Mr Giorgio Ghiringhelli, the managing director, said yesterday.

He put the value to shareholders of the subscription right at SFr 140 per bearer share and SFr 45 per registered share.

Shareholders will also be asked to approve the issue of 200,000 new participation certificates each of nominal SFr 100 without subscription rights. Existing participation certificates of nominal SFr 500 are to be split into five certificates of nominal SFr 100.

BSI, the biggest bank in the Italian-speaking canton of Ticino and one of the six largest publicly quoted banks in Switzerland, is increasing its payout to shareholders after booking a 15.2 per cent increase in net earnings to SFr 42m on the 1986 account. Irving Trust of New York holds 40 per cent of the capital and almost 25 per cent of the BSI voting rights.

The board proposes to raise the dividend from 12.5 per cent to 14 per cent, made up of an ordinary dividend of 12 per cent and an extraordinary dividend raised to 2 per cent from last year's 1.5 per cent. The payout will total SFr 28.2m. Last year BSI's assets grew by 4.8 per cent to SFr 6.5m, and shareholders' equity remained in step with a 4.8 per cent advance to SFr 42m.

The slower growth in the balance sheet compared with the annual average of 12 per cent recorded in 1980-85 is attributed to the weakness of the dollar. Without the dollar, depreciation growth would have been 14 per cent, the bank said.

BSI, weighted more towards investment banking than the other big Swiss "universal" banks, relies heavily on commission earnings, which climbed last year by 20 per cent to SFr 133m.

Net interest income rose 3.4 per cent to SFr 83.1m, held back by a 38 per cent decline in earnings on money market operations, while trading in foreign exchange and precious metals produced a marginally lower income of SFr 26.4m.

INTERNATIONAL PROPERTY REVIEW

THE FT EVERY FINDAY

DFDS bounces back for first time in 6 years

By Hilary Barnes in Copenhagen

DFDS, the Danish shipping company, made its first operating profit last year since 1981 with earnings of Dkr 97m (\$14m), which was much better than expected.

The company, which dominates North Sea traffic between Scandinavia, Hamburg and the UK, improved after-tax earnings from Dkr 34m to Dkr 61m while pre-tax earnings improved from a loss of Dkr 24m to a profit of Dkr 70m. No dividend will be paid.

The equity-to-assets ratio, which dipped to only 6 per cent in 1983, increased last year from 20 to 39 per cent, which reflected a revaluation of the company's headquarters offices in Copenhagen to 70 per cent of the estimated market value.

Sales were down slightly from Dkr 3,490m to Dkr 3,340m.

The preliminary statements said the group's divisions - passenger transport, land transport, liners and Tor Line - improved performance last year.

For the first time for several years no ships were sold, and three were added to the fleet owned by the company, including one which from April 1 will be used to increase passenger capacity on the Hamburg-Harwich route.

A positive result is expected again in 1987, but it may be rather lower than in 1986, the statement said.

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March 18, 1987, London

By: Citibank, N.A. (CSSI Dept.), Agent Bank

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Interest Period 18th March 1987 to 18th June 1987

Interest Amount due 18th June 1987

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STRAUSS

A memorial service will be held for Julius Strauss at the Plaistons Hall, 1 London Wall, London EC2, at 12.00 midday on Monday, 30th March 1987

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March 18, 1987, London

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Terry Dodsworth and David Thomas describe the differing fortunes of two divisions of Thorn EMI, the embattled UK electricals group

A glitch on the road to recovery

IVOR OWEN, a dapper 56-year-old Liverpoolian, accepted one of Thorn EMI's biggest managerial problems areas three years ago when he took charge of the consumer and commercial division, the manufacturing group responsible for lighting and all kinds of domestic and commercial appliances.

Last week, with the job of shaking these operations back into a reasonable rate of profitability only half complete, he abruptly resigned. He was going, he said, because of a dispute over how to tackle the division's "complex and varied" problems—a polite way of indicating his disenchantment with a veto by Colin Southgate, Thorn's managing director, of sweeping plans for new investment in the business.

While details of these investment plans are not known, the aggressive approach advocated by Owen clearly goes right to the heart of the dilemma facing Thorn in this division and throughout the group.

For top management, looking at a range of options for expenditure in the company as a whole, there have to be questions about whether the group should invest in this sector or in other divisions. What kind of returns can Thorn expect to make on manufacturing in the UK in a sector which is so wide open to foreign competition? How long would it take to gear up competitive production, and would the group generate better margins in some of its other businesses? Would it make more sense to rationalise lighting and appliance manufacturing by buying in some products and selling off some production activities no longer needed?

A measure of the division's difficulties can be gauged from its performance last year. Its constituent parts embrace some of the dominant companies in their sectors, including Thorn lighting, with more than 50 per cent of the UK market and a strong overseas presence, Kenwood kitchen appliances, one

of the group's few genuinely international businesses, and commercial and domestic appliances. The kitchen products—cookers, refrigerators and washing machines, sold under the Tricity, Sensix, Mofrat and Parkinson Cowan brands—have up to 35 per cent of UK sales in some sectors.

Yet with the addition of the Ferguson television manufacturing company (the way Thorn presents its accounts), these activities generated a trading profit of only £23m on sales of £1bn for the year to March 1986—a return on sales of less than 3 per cent. Lighting accounted for the main part of these profits—about £17m—while the appliance division, employing about 5,000 with sales of £200m, only just broke even.

In the last three years, and at an accelerated pace since a new top management team was installed at Thorn 18 months ago, Owen had developed a strategy for tackling these problems based on three main lines of attack.

The first objective was to reorganise the management into much smaller reporting groups, each run by an executive who had a more clearly defined responsibility for its performance.

In lighting, for example, the aim has been to break down a complex activity with a wide range of products—Thorn makes both light bulbs and fittings—into discrete areas "responsible for differentiating their products," as Owen put it.

"Each is in a different market place and exposed to different competitive conditions—different research and development requirements."

Second, Owen was trying to shift both the lighting and consumer products divisions towards a much greater emphasis on product design and marketing—in his words "selling aspirations, rather than to electricity board showrooms."

The third element of Owen's strategy was new investment, the point on which he parted



Radio Rentals (left) is the UK market leader in rentals—not only radios but dishwashers now too; the development of the halogen cooker has taken Thorn upmarket for the first time

company with senior management.

The problem is not yet too acute in lighting, which has continued to innovate successfully, and the Kenwood kitchen appliance business has been kept up-to-date. But large parts of the domestic appliance activities are in poor shape, operating from old-fashioned plants, and making out-of-date products at uncompetitive prices.

Without a revamp, these operations will not be able to maintain the pace against expanding international rivals such as the Swedish Electrolux, or the cheap products of East European manufacturers which are beginning to nibble away at the bottom end of the market.

These weaknesses are particularly acute in the refrigeration division, which Thorn executives cite frequently as an example of a business which needs a complete overhaul—from the fabric of its production facilities to the design of its products.

Although Thorn has given no clues as to how it might tackle the problems after Owen's departure, the launch of a review of the business under Southgate suggests certain lines of attack. He appears to want a faster improvement than has been achieved or was promised under the investment plan presented by Owen; and he may have been unconvinced that a broad-based spending programme, maintaining the present range of manufacturing facilities, was the right approach. Both he and Sir Graham Wilkins, Thorn's chairman, have made it clear in the past that they are not committed to manufacturing if it makes more sense to buy.

The biggest question mark hangs over domestic appliances

—although there are some promising segments within the business. Thorn's main opportunity in this sector lies in the cooker operations, partly because it has already pushed through a £10m investment in a show-piece new cooker plant at Spennymore, near Durham, and partly because it has a mix of technology which is well adapted to today's market needs. The market trend in the UK is towards shorter replacement cycles and higher quality products with mixed power sources—and Thorn has the advantage of manufacturing for both gas and electricity.

The group also has a strong new technology on which to capitalise—halogen heat, or "cooking by light," a development of the Thorn central laboratories. Halogen uses a tungsten halogen filament for its heat source to give an instant response, so that users have the controllability of gas with the cleanliness of electricity, an approach that has won instant success in terms of both sales and pricing: it has given Thorn a cooker it can sell for £800 against a top-of-the-range product priced at £470 only 18 months ago.

Among options to be considered for the refrigerator and microwave oven businesses, are links with European multinationals (Thorn could brand their products, or vice-versa), or even disposal.

Owen himself argued the investment case to the end. "I think," he said recently, "that the opportunities for investment in the UK are better now than at any time since the last war. We are designing better products, our labour costs are competitive, and currency factors have moved in our direction."

Two high street giants undergo a cultural upheaval

JOHN BARNES, managing director of Thorn EMI's high street electronics operations, was deeply unimpressed by what he found when he joined the company late in 1985.

Little consumer research, poor marketing, a failure to experiment, badly trained staff with little sense of purpose—these are just some of the horrors he had to cope with.

Barnes, a high flyer in his 30s, was not used to this. He had spent all his career with marketing-driven US companies—most recently as managing director of Kentucky Fried Chicken in the UK, and before that as general manager of Pepsi in Canada.

"I was staggered by the poverty of systems and lack of controls and by the failure to invest in people within Thorn EMI," Barnes remembers.

Yet Thorn's high street businesses could hardly be considered an unimportant part of its empire. In the last full year, rental and retail contributed almost two thirds of the group's operating profits (£97.6m out of £154m) and more than a quarter of turnover (£883.3m out of £3,328m).

Thorn's rental brands, with about 1,200 outlets altogether, include Radio Rentals, the UK market leader. Its retail side

takes in the Rumbelows chain, with more than 40 outlets, and the HMV music chain with almost 50 outlets.

Barnes set about changing the culture of his new patch, which he says was production—not marketing—led.

In this he was following the strategy devised by his boss, Dr Jim Maxmin, the Thorn board member in charge of rental and retail. Maxmin, like Barnes, had a marketing background; before moving to Thorn three years ago, he had headed Volvo's sales efforts in the UK.

One of the first moves under the new strategy was to find out more about the 3.5m people who use Thorn's shops, particularly those who choose to rent, the core of Thorn's high street business.

"In the past, to spend £20,000 on consumer research was considered a lot," Barnes says with incredulity.

The research told Thorn three key facts about the rental market, partly surprising and partly well known.

First, contrary to popular wisdom, renting is not peculiar to poor people.

"There is no skew down market. Our rental customers form a very broad social picture. There is an upper income slug to which we can

market selectively," Barnes says.

Second, the market has been in slow decline, with more people turning to renting each year than turning to it.

Yet, third, within this declining total, there is a large group of people who continue to rent over a long period.

Thorn's new rental strategy evolved out of these three facts. There was no point going all out for growth. But there was sense in trying both to persuade existing customers to rent more products and to slow the pace at which customers stopped renting.

Thorn believes that customer perceptions are changing—which will make these goals more achievable. Upper and middle income consumers are more likely to rent because they want to trade in equipment quickly as each new generation comes along—"techno-fear," as Maxmin calls it.

But realising the goals, in Barnes's view, meant dumping the assumption that there was one homogenous rental or high street market. Great differentiation became the order of the day.

An early decision was not to merge any of Thorn's high street chains, such as Radio Rentals and DER. Merging the brands had some backers within the company because of the large cost savings it would have yielded. But, counters Barnes, it would have been a crass piece of marketing.

Next came the decision to distinguish more sharply between renting and retailing. Rumbelows' rental business was transferred to Thorn's rental brands, leaving it to concentrate on retailing. This course is the opposite of that being followed by Granada, one of Thorn's main high street competitors, which has moved to a mixed retail-and-rental approach.

Thorn is also experimenting with new products. "We had no product testing. There seemed to be a mentality that TV and video were the last rental products," Barnes says.

Many of Thorn's new ideas are aimed up-market—at the yuppie renter. Some have been tried out first in Thorn's rental shops overseas. Dishwashers, car telephones, hi-fi systems, umbrellas and mobile discotheques have now been introduced in selected rental shops in the UK.

Preliminary results confirm that there is no single rental market: "In Leeds, the renting of dishwashers is going very

well. It's not going very well in Swindon," Barnes says.

Awareness of regional variations has meant giving local management greater control. "DER in Scotland is completely different from DER in London, because the demographics are completely different. We had to organise our companies so management was much closer to the shops," Barnes explains.

This meant cutting out layers of management and in many cases appointing new people, with a bias towards managers with marketing and operations experience. This, plus much stricter stock control, has produced significant savings: the workforces of the high street business has been cut by a fifth in the past three years to 14,500.

However, Barnes wants to protect the shops from job-shedding. "We don't have enough people in the shops. The shops were regarded as the lowest of the low. They weren't properly equipped and the staff were underpaid and untrained."

Thorn's front-line rental staff are now being trained in ways of retaining customers once they have made the initial decision to rent. About a fifth of customers found their initial contact with Thorn unsatisfactory in some way, Barnes says. "The reason we lose these customers is our own inadequacies."

Customers are also being offered more flexible terms, such as rental periods, in the drive to keep them loyal.

Most observers are optimistic about Thorn's strategy. "Thorn is adopting an imaginative approach and has reasonable chance of succeeding," says John Sanderson, an analyst with County Securities.

However, analysts also say there is still much to be done before the new culture seeps into every nook and cranny of Thorn's high street empire, a point which Maxmin accepts.

So what hard evidence is there that the strategy is working?

Thorn reels off a number of answers. Its share of the TV rental market is increasing. Rumbelows has already generated enough new retail business to make up for the rental customers it surrendered. Outside observers believe rental profits could be up by as much as a quarter this year.

But Barnes is perhaps most proud of the fact that his total number of rental customers looks set to be stable this year. At least for the moment, Thorn has halted the decline of its rental sector.

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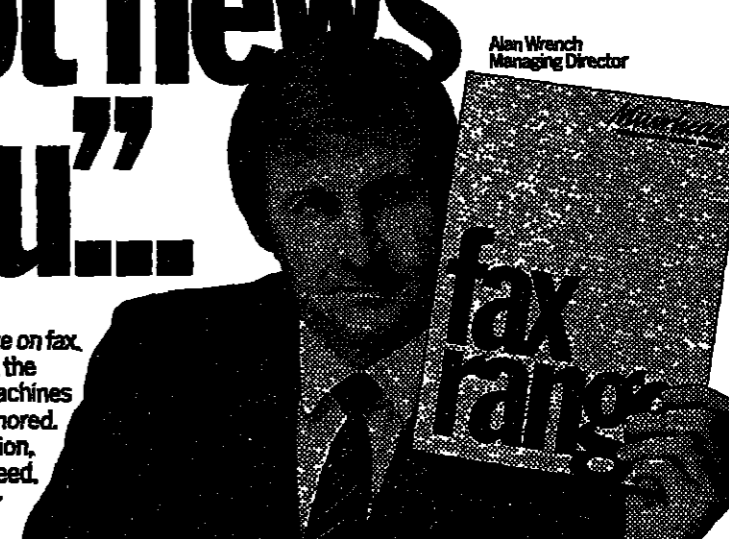


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UK COMPANY NEWS

NEW COMPANY WILL HAVE SALES OF £125M AND NET ASSETS OF £37M

Garnar agrees merger with Pittard

BY NIKKI TAIT

Garnar Booth, the leather manufacturer which finally escaped a £20m bid from Strong & Fisher last month, yesterday announced that it has agreed merger terms with a third leather company, Pittard Group.

With shares in Yeovil-based Pittard up 7p to 30p yesterday, the terms of the merger, valued at £125m, will create a company with sales of some £125m and net assets of about £37m. Garnar shares added 21p to 24p.

Mr John Fooks, deputy chairman of Garnar, said the merger idea stemmed partly from the monopolies reference into the earlier Strong bid. Strong pulled out in February, shortly before the Monopolies Commission was due to complete its findings.

"It was an instructive exer-

cise," Mr Fooks said yesterday. "We talked to various parties during the reference and learnt even more about our own business."

The two companies, both family businesses stretching back to the 19th century, have known each other well for years. Pittard was rumoured as a white knight for Garnar when it was fighting the Strong bid and it voiced concern to the Office of Fair Trading and Monopolies Commission about the Strong-Garnar link-up.

Yesterday, both Garnar and Pittard rejected suggestions that a similar monopolies reference might follow from yesterday's deal.

Pittard's £43m sales are split between gloves (55 per cent), shoe upper leather (35 per cent) and clothing leather (10 per cent). The bulk of its

raw material is either hides or imported hair sheepskins. The previous monopoly queries arose over concentration in the domestic lamb skin business.

Garnar Booth's business is more widely spread, spanning hides and skin markets, felloes, tanneries and in terms of finished product, chamois, skivvy which goes towards shoe leather and other goods, and clothing leather.

Yesterday, Pittard said that Garnar sourcing could prove useful in its own business while its own technical and marketing expertise could help develop the latter's products. Little overlap is seen and the two businesses will continue to run separately for the first year, although Garnar directors will join the Pittard board.

Garnar Booth shareholders are offered 17 Pittard shares

for every 20 held. There is no cash alternative. The terms will increase Pittard's issued share capital by almost 70 per cent.

Yesterday, Pittard was unable to contact Mr Richard Strong, managing director of Strong and Fisher, which still holds a 16.4 per cent stake in Garnar. If Strong accepted the terms, it would hold about 7 per cent.

No one else at Strong was prepared to comment on the merger announcement beyond saying that Strong had no immediate intention of disposing of its stake.

Pittard last month reported a 56 per cent increase in pre-tax profits to £4.19m in 1986. Garnar Booth announced a £624,000 loss in the first six months of 1986-87, but yesterday predicted that the full year figure to end-January would be not less than £1.5m before tax.

Hepworth sells 4.9% stake in Birmid

By Mike Smith

Hepworth Ceramic Holdings, the building materials company, yesterday signalled that it had abandoned hopes for a merger with Birmid Quakeless by selling its 4.9 per cent stake in the group.

The disposal of the 3.25m shares in the lawnmowers to fundries company immediately fuelled speculation that Hepworth was interested in the domestic appliances division.

Mr Sinclair Thomson, group chief executive, ran the TI white goods arm before moving to Hepworth last year. He has been to have considered the purchase of Birmid following the decision last month to sell.

Hepworth sold its Birmid stake for about 23p a share, a considerable premium to the previous price. On the day that Birmid revealed Hepworth's interest in its equity last month, the price stood at 18p.

At one stage Hepworth acquired another 5 per cent stake but the takeover Panel ordered this to be sold because the company's broker Hoare Govett had unintentionally broken the takeover code by buying the shares from its parent company's market making arm. Mr Alan Emson, Birmid's finance director, said yesterday he was not surprised at Hepworth's decision following his company's rejection of a merger. Birmid had never seen the industrial logic of a union.

Shares in Birmid closed at 22p, down 14p. None the less, the company has clearly benefited from the City's close attention during the last month. The shares have risen more than 20 per cent since Hepworth's first approach.

Mr Emson said there was no question of the company standing still. The rise in the share price had put "one or two things into frame which six months ago would have been impossible."

Shares in Hepworth rose 6p to 224p.

Lex Service starts promisingly

In the accounts of Lex Service, Mr Trevor Chinn, chairman and chief executive, said the year had opened promisingly for the automotive distribution and leasing businesses which were all showing profits higher than last year.

He added that the group's electronic component distribution companies were showing some small signs of improvement, with suppliers indicating increased order levels both in the US and Europe, the chairman stated.

He added that the action taken to reduce losses in those businesses where they occurred and to control costs throughout the electronics group should enable Lex to be profitable in the existing market conditions.

KLP upsurge

Mr John Lawrence, chairman of KLP group, Britain's largest pension and marketing services company, told the agm that there had been "an upsurge in business" in the current financial year.

New contracts worth £6m had been won and the first ever contract awarded by the Electricity Council for the services of a sales promotion company had also been secured.

QUEENS MONT Horses has agreed to buy Crick, Ripper and Totel which runs the hotel of the same name in Shrewsbury, Salop. The consideration is £2.5m less book value of the net current liabilities of the company at completion date. The deal will be settled by a combination of cash and shares issued to the vendor.

BOARD MEETINGS

Company	Date
Imperial Chemical Industries	Mar 24
Amalgamated Alloys	Mar 24
Amalgamated Alloys	Mar 24
Amalgamated Alloys	Mar 24
Amalgamated Alloys	Mar 24
Amalgamated Alloys	Mar 24
Amalgamated Alloys	Mar 24
Amalgamated Alloys	Mar 24
Amalgamated Alloys	Mar 24
Amalgamated Alloys	Mar 24

DIVIDENDS ANNOUNCED

Company	Current payment	Date of payment	Total last year
BM Group	10.9	—	0.65
Dunlop Group	10.2	—	0.16
Expamet	14.05	—	3.55
Kellogg Trust	10.1	May 22	0.15
Laing Properties	4.5	—	8
Paterson Zochonis	1.75	Apr 30	1.65
Rotunda	11	May 8	1
Strom	1.45	—	1.45
Systems Designers	0.35	—	0.35

Dividends shown pence per share net except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock.

Nigerian currency losses hit Paterson Zochonis

Paterson Zochonis, a holding company with interests in the manufacture of toiletries which includes Cussons Imperial Leather among its brands, reported pre-tax profits down from £20.57m to £16.3m in the six months to November 30 1986. Group turnover dropped from £120.4m to £103.3m.

Mr John Zochonis, chairman, said that the profits were in line with company expectations and that the fall was the result of a drop in sterling terms of the profits of the company's Nigerian subsidiaries—though in currency terms these had been higher.

He added that the Nigerian economic adjustment programme which had started in September 1986 had resulted in a major movement in the value of the Nigerian currency and the liberalisation of imports. He said that the former had had an adverse effect on the interim figures but that the latter, which had allowed improved availability of production materials and spare parts, should benefit all group manufacturing units there.

Mr Zochonis reported further improvement in the results of all the Cussons group companies; depressed conditions in some areas where the company's subsidiary operated; and improvements by Minerva in Greece. He added that Cussons had bought a small soap factory in Thailand in order to establish a direct presence there.

He believed that profits in the second half of the year would be comparable with those of the second half last year.

Investment income rose from £4.4m to £5.3m; interest payable dropped from £3.2m to £2.9m; and the share of profits from related companies tumbled from £7m to £2.5m.

Tax charges fell from £9.5m to £6.4m and earnings per share worked through at 19.96p, down from 22.58p last time. Minority interests were £16,000 (£302,000) and attributable profits fell from £11.1m to £9.8m.

The company declared an interim dividend of 1.75p, up from 1.65p last time.

comment

Paterson Zochonis's interim

brought few surprises to a market well prepared for the sharp downturn in the Nigerian contribution: indeed, although the figures were slightly worse than some had forecast, the shares put on 13p to 358p. Perhaps this is not so surprising in a bull market obsessed with seeking out any remaining undervalued stocks, for with only a slight shortfall from last year's £42.3m in sight for the current year, 1987's prospective p/e multiple looks unusually low at 8. The main reason for the discount to the wider market is, of course, the unreliability of those Nigerian earnings, yet the Cussons operation is performing well and investment income provides a solid earnings base. PZ is not among the most exciting overseas traders, but given its asset backing of nearly £3 a share in cash and gilts alone, the difference between that figure and the market price does not seem an exorbitant sum to pay for the possibility of continued growth at Cussons and the hope of a stimulus to Nigerian profits in a post devaluation economy.

Expanding Expamet nears £6m

Expamet International, fast-expanding supplier of components, products and services to the industrial building and security markets, picked up after a static opening half year and for 1986 as a whole increased its profits by 32 per cent at the pre-tax level.

Furthermore, the group made a good start to 1987 showing strong order books in many of its companies.

The directors said yesterday that action taken in the original businesses was beginning to show results and added that 1987 would also benefit from a full year's contribution of the 1986 acquisitions.

They looked to the future with "great deal" of confidence.

For the 1986 year turnover pushed ahead from £52.46m to £69.77m and with all sectors showing increases pre-tax profits rose to £5.77m, an improvement of £1.3m over the reported figures of the previous year.

The profits by division broke down as follows: Industrial (£1.49m), Industrial (£1.66m) and security (£1.82m).

The directors said that in view of the number and scale of the acquisitions the overall performance and improved balance of activity were encouraging.

Shareholders are to receive a total dividend of 6.75p (5.9p) net of the enlarged capital via a final of 4.05p. The dividend is as forecast last June at the time of the acquisition of Metal Industries and the £9.2m rights issue to fund the purchase.

Tax for 1986 accounted for £2.03m (£1.52m) and extraordinary items for £107,000 (£nil).

Earnings worked through 1.96p higher at 14.23p per 25p share.

comment

Expamet has come in just ahead of expectations thanks to £1.4m from acquisitions—which leaves

the distinct impression that continuing businesses were flat. However, it was IBC, which lived up to its longstanding record with a £280,000 profit, and a £1m fall at Expanded Metal that held the core performance. As some of the represented costs associated with a management consultancy review of the company's operations, the hope is that this year will at least see a decent multiple of the fee being earned. Net debt at the year-end was £4.4m, up from £2.8m in December 1985. Expamet's board is unlikely to feel comfortable with a level of borrowings any higher than this—suggesting that 1987 will in the main be a year of consolidation in which the limits set by cash generation, about 25m last year. For the year pre-tax profits should reach £8m which puts the shares at 25p on a prospective p/e of almost 14 following the strong run up to these results.

Coloroll to dispose of its packaging division

BY RALPH ATKINS

Coloroll, wallpaper and home fashion group, is to sell its packaging division.

The group says the division, which made a pre-tax profit of £300,000 on a turnover of £1.94m in the six months to September 1986, does not fit in with its development strategy. Net assets of the division are valued at £1m.

Coloroll said that it was faced with a choice between investing in the increasingly competitive packaging business, or concentrating on its wallpaper and home fashion businesses.

The packaging division accounts for less than 5 per cent of group's sales.

Coloroll has made a series of acquisitions since its flotation

on the Stock Exchange in 1953. Two weeks ago it announced the acquisition of Walco, a Florida-based manufacturer and distributor of wallcoverings, for £14.5m (£9.35m).

INOCO HAS reached agreement with associate Monaco Group Fund SA to purchase portfolio of commercial properties having gross value of some £13m. Acquisition to be financed as to £6m via issue of 15m new Inoco ordinaries and balance by mortgage finance. Final consideration to be determined on basis of independent valuation. Purchase will increase Inoco's net income by some £500,000 per annum.

Black Horse moves into Wiltshire

Black Horse Agencies, the estate agency subsidiary of Lloyds Bank, has expanded into Wiltshire by acquiring Tilley & Woods, a firm with nine offices. This brings BHA's total to 338 in 34 counties.

BHA also reported that it made a pre-tax profit of £5m last year, representing a return of 25 per cent on capital invested.

House sales increased 54 per cent to 38,417, approaching a value of £2bn. Turnover increased by 60 per cent to £47m.

Mr Peter Constable, chief executive, said the company had a short-term objective of 500 offices, and was expanding the number with financial services departments.

Notice of Redemption

TO THE HOLDERS OF

Pennzoil Overseas Finance N.V.

15% % Guaranteed Debentures Due April 1, 1990

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Indenture dated as of April 1, 1982 among Pennzoil Overseas Finance N.V. (the "Company"), Pennzoil Company, as Guarantor, and Chemical Bank, as Trustee, all of the Company's 15% % Guaranteed Debentures Due April 1, 1990 will be redeemed on April 1, 1987 (the "Redemption Date") at the price of 101% of their principal amount (the "Redemption Price").

Payment will be made upon presentation and surrender of the Debentures with all coupons appertaining thereto maturing after the Redemption Date. Coupons maturing on April 1, 1987 should be detached and surrendered for payment in the usual manner. On and after the Redemption Date, interest on the Debentures will cease to accrue.

Debentures should be presented and surrendered for payment at the offices of any of the following paying agents:

Chemical Bank Corporate Trust Tellers 55 Water Street 2nd Floor-North Bldg. New York, New York 10041	Chemical Bank Zurich Branch Freigutstrasse 16 CH-8039 Zurich, Switzerland	Chemical Bank Paris Branch 190 Avenue Charles de Gaulle 92523 Neuilly-sur-Seine Paris, France
Kreditbank S.A. Rue d'Arenberg 7 B-1000 Brussels Belgium	Chemical Bank London Branch 180 Strand London WC2R England	Chemical Bank Frankfurt Branch Ulmstrasse 30 6000 Frankfurt am Main 17 Germany
Banque Internationale à Luxembourg S.A. 2 Boulevard Royal Luxembourg		

Pennzoil Overseas Finance N.V.
By: Chemical Bank, Trustee

Dated: February 26, 1987

If a Debenture is presented for payment within the United States, payment is made to an address within the United States by mail or electronic transfer or to an account maintained by the payee within the United States, or the payee is a United States person, the payment will be subject to reporting to the United States Internal Revenue Service ("IRS") and to backup withholding of 20% of the gross proceeds if the paying agent has not received from the payee a properly completed IRS Form W-8 or W-9 or the payee does not otherwise qualify for an exemption. In addition, under certain circumstances, if a Debenture is presented for payment, or payment is otherwise collected, outside the United States on behalf of the payee by a broker, nominee, or other agent that is a United States person, a controlled foreign corporation for United States tax purposes, or a foreign person with certain amounts of income effectively connected with a trade or business within the United States, the payment may be subject to reporting to the IRS (but not backup withholding).

Building profits up 25%
Industrial profits up 26%
Security profits up 48%

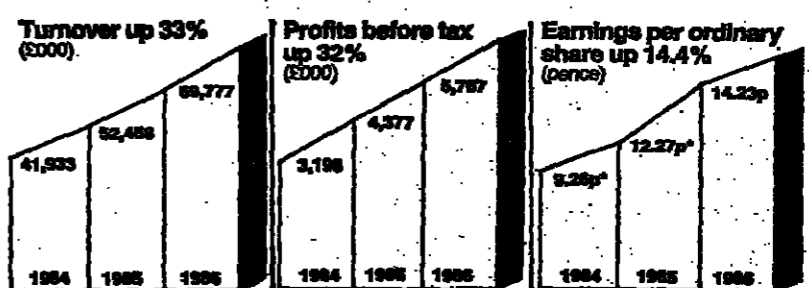
1986 was the sixth successive year of growth for Expamet International, with overall profits, at £5.8m, up 32%.

Turnover increased by 33% to £70m.

The Group's acquisition strategy continued through the year, with 45% of total acquisition expenditure directed towards the security market. This growing sector now contributes 32% of Group profits.

1987 has started well and further profit growth is expected.

A final dividend of 4.05p is being recommended, making a total for the year of 6.75p, an increase of 14.4%.



EXPAMET INTERNATIONAL PLC
BUILDING INDUSTRIAL AND SECURITY PRODUCTS

Copies of the 1986 Annual Report & Accounts will be available from the Secretary on the 2nd April.
Expamet International PLC, Clifton House, 83-85 Clifton Road, Ealing W5 6TA.

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS		MORNING MARCH 16 1987		DOLLAR INDEX	
Flows in parentheses show number of stocks per grouping		US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index
Australia (94)	112.68	+1.0	105.47	110.02	3.03
Austria (16)	94.34	+0.1	88.90	90.14	1.71
Belgium (47)	115.91	+0.5	108.48	109.62	4.01
Canada (132)	127.77	+0.0	119.58	121.75	2.28
Denmark (39)	112.85	+1.1	105.63	106.10	2.33
France (121)	114.12	+0.3	106.81	109.51	2.26
West Germany (99)	87.33	+0.4	81.74	83.43	2.15
Hong Kong (45)	105.38	+0.1	98.64	100.55	2.97
Ireland (14)	128.13	+0.4	119.93	124.38	3.29
Italy (75)	99.14	+3.4	92.79	96.66	1.54
Japan (450)	123.24	+0.3	115.35	118.10	0.54
Malaysia (35)	127.89	-0.2	119.70	124.22	2.98
Mexico (14)	128.13	+1.1	120.90	125.73	1.33
Netherlands (38)	109.00	-0.2	102.2	103.28	4.25
New Zealand (27)	93.08	+1.9	87.12	87.56	3.04
Norway (25)	121.37	+0.3	113.60	114.41	2.00
South Africa (61)	119.79	+0.3	110.37	114.24	3.27
Spain (43)	114.76	+0.1	106.12	104.30	3.80
Sweden (32)	113.38	+2.2	106.12	110.63	3.44
Switzerland (52)	109.46	+1.4	102.45	104.15	2.26
United Kingdom (243)	96.12	+1.3	89.97	91.62	1.83
USA (581)	127.37	+0.3	119.21	119.21	3.51
Europe (946)	118.87	-0.6	111.26	118.87	3.01
Pacific Basin (686)	110.81	+0.7	103.71	105.02	2.91
Asia-Pacific (1652)	122.14	+0.3	114.32	117.27	0.71
South America (713)	119.34	+0.4	110.09	112.36	1.54
World Ex. US (1339)	128.19	+0.4	110.62	112.67	2.97
World Ex. US (2077)	117.60	+0.0	110.07	114.73	2.01
World Ex. US (2259)	116.19	+0.0	110.07	114.73	2.01
World Ex. Japan (1356)	116.19	+0.0	110.07	114.73	2.01
The World Index (2420)	118.47	+0.0	110.88	115.12	2.15

Base value: Dec 31, 1985 = 100
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Last index not available for this edition

EUROPEAN OPTIONS EXCHANGE

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2008	Aug 2008	Sep 2008	Oct 2008	Nov 2008	Dec 2008	Jan 2009	Feb 2009	Mar 2009	Apr 2009	May 2009	Jun 2009	Jul 2009	Aug 2009	Sep 2009	Oct 2009	Nov 2009	Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010	Jul 2010	Aug 2010	Sep 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Feb 2011	Mar 2011	Apr 2011	May 2011	Jun 2011	Jul 2011	Aug 2011	Sep 2011	Oct 2011	Nov 2011	Dec 2011	Jan 2012	Feb 2012	Mar 2012	Apr 2012	May 2012	Jun 2012	Jul 2012	Aug 2012	Sep 2012	Oct 2012	Nov 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013	Apr 2013	May 2013	Jun 2013	Jul 2013	Aug 2013	Sep 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016	Sep 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Jul 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019	Jul 2019	Aug 2019	Sep 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023	Jul 2023	Aug 2023	Sep 2023	Oct 2023	Nov 2023	Dec 2023	Jan 2024	Feb 2024	Mar 2024	Apr 2024	May 2024	Jun 2024	Jul 2024	Aug 2024	Sep 2024	Oct 2024	Nov 2024	Dec 2024	Jan 2025	Feb 2025	Mar 2025	Apr 2025	May 2025	Jun 2025	Jul 2025	Aug 2025	Sep 2025	Oct 2025	Nov 2025	Dec 2025	Jan 2026	Feb 2026	Mar 2026	Apr 2026	May 2026	Jun 2026	Jul 2026	Aug 2026	Sep 2026	Oct 2026	Nov 2026	Dec 2026	Jan 2027	Feb 2027	Mar 2027	Apr 2027	May 2027	Jun 2027	Jul 2027	Aug 2027	Sep 2027	Oct 2027	Nov 2027	Dec 2027	Jan 2028	Feb 2028	Mar 2028	Apr 2028	May 2028	Jun 2028	Jul 2028	Aug 2028	Sep 2028	Oct 2028	Nov 2028	Dec 2028	Jan 2029	Feb 2029	Mar 2029	Apr 2029	May 2029	Jun 2029	Jul 2029	Aug 2029	Sep 2029	Oct 2029	Nov 2029	Dec 2029	Jan 2030	Feb 2030	Mar 2030	Apr 2030	May 2030	Jun 2030	Jul 2030	Aug 2030	Sep 2030	Oct 2030	Nov 2030	Dec 2030	Jan 2031	Feb 2031	Mar 2031	Apr 2031	May 2031	Jun 2031	Jul 2031	Aug 2031	Sep 2031	Oct 2031	Nov 2031	Dec 2031	Jan 2032	Feb 2032	Mar 2032	Apr 2032	May 2032	Jun 2032	Jul 2032	Aug 2032	Sep 2032	Oct 2032	Nov 2032	Dec 2032	Jan 2033	Feb 2033	Mar 2033	Apr 2033	May 2033	Jun 2033	Jul 2033	Aug 2033	Sep 2033	Oct 2033	Nov 2033	Dec 2033	Jan 2034	Feb 2034	Mar 2034	Apr 2034	May 2034	Jun 2034	Jul 2034	Aug 2034	Sep 2034	Oct 2034	Nov 2034	Dec 2034	Jan 2035	Feb 2035	Mar 2035	Apr 2035	May 2035	Jun 2035	Jul 2035	Aug 2035	Sep 2035	Oct 2035	Nov 2035	Dec 2035	Jan 2036	Feb 2036	Mar 2036	Apr 2036	May 2036	Jun 2036	Jul 2036	Aug 2036	Sep 2036	Oct 2036	Nov 2036	Dec 2036	Jan 2037	Feb 2037	Mar 2037	Apr 2037	May 2037	Jun 2037	Jul 2037	Aug 2037	Sep 2037	Oct 2037	Nov 2037	Dec 2037	Jan 2038	Feb 2038	Mar 2038	Apr 2038	May 2038	Jun 2038	Jul 2038	Aug 2038	Sep 2038	Oct 2038	Nov 2038	Dec 2038	Jan 2039	Feb 2039	Mar 2039	Apr 2039	May 2039	Jun 2039	Jul 2039	Aug 2039	Sep 2039	Oct 2039	Nov 2039	Dec 2039	Jan 2040	Feb 2040	Mar 2040	Apr 2040	May 2040	Jun 2040	Jul 2040	Aug 2040	Sep 2040	Oct 2040	Nov 2040	Dec 2040	Jan 2041	Feb 2041	Mar 2041	Apr 2041	May 2041	Jun 2041	Jul 2041	Aug 2041	Sep 2041	Oct 2041	Nov 2041	Dec 2041	Jan 2042	Feb 2042	Mar 2042	Apr 2042	May 2042	Jun 2042	Jul 2042	Aug 2042	Sep 2042	Oct 2042	Nov 2042	Dec 2042	Jan 2043	Feb 2043	Mar 2043	Apr 2043	May 2043	Jun 2043	Jul 2043	Aug 2043	Sep 2043	Oct 2043	Nov 2043	Dec 2043	Jan 2044	Feb 2044	Mar 2044	Apr 2044	May 2044	Jun 2044	Jul 2044	Aug 2044	Sep 2044	Oct 2044	Nov 2044	Dec 2044	Jan 2045	Feb 2045	Mar 2045	Apr 2045	May 2045	Jun 2045	Jul 2045	Aug 2045	Sep 2045	Oct 2045	Nov 2045	Dec 2045	Jan 2046	Feb 2046	Mar 2046	Apr 2046	May 2046	Jun 2046	Jul 2046	Aug 2046	Sep 2046	Oct 2046	Nov 2046	Dec 2046	Jan 2047	Feb 2047	Mar 2047	Apr 2047	May 2047	Jun 2047	Jul 2047	Aug 2047	Sep 2047	Oct 2047	Nov 2047	Dec 2047	Jan 2048	Feb 2048	Mar 2048	Apr 2048	May 2048	Jun 2048	Jul 2048	Aug 2048	Sep 2048	Oct 2048	Nov 2048	Dec 2048	Jan 2049	Feb 2049	Mar 2049	Apr 2049	May 2049	Jun 2049	Jul 2049	Aug 2049	Sep 2049	Oct 2049	Nov 2049	Dec 2049	Jan 2050	Feb 2050	Mar 2050	Apr 2050	May 2050	Jun 2050	Jul 2050	Aug 2050	Sep 2050	Oct 2050	Nov 2050	Dec 2050	Jan 2051	Feb 2051	Mar 2051	Apr 2051	May 2051	Jun 2051	Jul 2051	Aug 2051	Sep 2051	Oct 2051	Nov 2051	Dec 2051	Jan 2052	Feb 2052	Mar 2052	Apr 2052	May 2052	Jun 2052	Jul 2052	Aug 2052	Sep 2052	Oct 2052	Nov 2052	Dec 2052	Jan 2053	Feb 2053	Mar 2053	Apr 2053	May 2053	Jun 2053	Jul 2053	Aug 2053	Sep 2053	Oct 2053	Nov 2053	Dec 2053	Jan 2054	Feb 2054	Mar 2054	Apr 2054	May 2054	Jun 2054	Jul 2054	Aug 2054	Sep 2054	Oct 2054	Nov 2054	Dec 2054	Jan 2055	Feb 2055	Mar 2055	Apr 2055	May 2055	Jun 2055	Jul 2055	Aug 2055	Sep 2055	Oct 2055	Nov 2055	Dec 2055	Jan 2056	Feb 2056	Mar 2056	Apr 2056	May 2056	Jun 2056	Jul 2056	Aug 2056	Sep 2056	Oct 2056	Nov 2056	Dec 2056	Jan 2057	Feb 2057	Mar 2057	Apr 2057	May 2057	Jun 2057	Jul 2057	Aug 2057	Sep 2057	Oct 2057	Nov 2057	Dec 2057	Jan 2058	Feb 2058	Mar 2058	Apr 2058	May 2058	Jun 2058	Jul 2058	Aug 2058	Sep 2058	Oct 2058	Nov 2058	Dec 2058	Jan 2059	Feb 2059	Mar 2059	Apr 2059	May 2059	Jun 2059	Jul 2059	Aug 2059	Sep 2059	Oct 2059	Nov 2059	Dec 2059	Jan 2060	Feb 2060	Mar 2060	Apr 2060	May 2060	Jun 2060	Jul 2060	Aug 2060	Sep 2060	Oct 2060	Nov 2060	Dec 2060	Jan 2061	Feb 2061	Mar 2061	Apr 2061	May 2061	Jun 2061	Jul 2061	Aug 2061	Sep 2061	Oct 2061	Nov 2061	Dec 2061	Jan 2062	Feb 2062	Mar 2062	Apr 2062	May 2062	Jun 2062	Jul 2062	Aug 2062	Sep 2062	Oct 2062	Nov 2062	Dec 2062	Jan 2063	Feb 2063	Mar 2063	Apr 2063	May 2063	Jun 2063	Jul 2
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هكذا من الأصل

هكذا من الأصل

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

Index-Linked (3)

AMERICANS

2006/07	2007/08	Stock	Price	Yield	Vol.	12M	12M	12M	12M	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08
"Shorts" (Lives up to 9 years)										INT. BANK AND O'SEAS GOVT STERLING ISSUES										CORPORATION BONDS									
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	25% Fixed Rate 2011	99.95	7.94	0.00	120.0	120.0	120.0	120.0	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	100.4	
100.4	100.4	2																											

Money Market Trust Funds

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COMMODITIES AND AGRICULTURE

Colombia to sell coal mine stake

BY GERARD McCLOSKEY

THE LOW price of coal on the world market has forced Caracol, the Colombian state coal company, to put up for sale 49 per cent of its share in the El Cerrejon steam coal mine, the biggest export mine in the world.

Caracol, which owns the mine jointly with Interco, the Colombian subsidiary of Exxon of the US, is already in talks with Japan Coal Development. It says the company's possible buyer is the coal division of Total, the French oil group. Coal from the mine, which started exporting just over two years ago, was originally expected to fetch \$80 a tonne, and prices were projected to reach \$200 a tonne by the turn of the century.

But a continuing oversupply of steam coal has played havoc with prices, and in the first few months of this year some sales have been made at below \$25 a tonne.

The mine was expected to be a cash cow for Colombia. But although it is covering its running costs at current prices, it is not able to repay the debt that remains on the capital cost of \$3.4bn.

El Cerrejon has the capacity to move 15m tonnes a year. It is also the most expensive—at the time of construction a new export terminal at Puerto Bolivar and a dedicated rail link between the two were also built.

The capital cost of about \$225 million a year of capacity dwarfs those of competitors. Allied Queensland Coalfields' Paramban on the Indonesian island of Sumatra—the latest steam coal mine to be developed—cost \$50 per annual tonne of capacity.

The Colombian Government had to face the fact that it had assumed a debt repayment burden which would be hard to clear in the foreseeable future.

It has taken the harsh decision to sell into effective 75 per cent foreign ownership the first major South American export mine.

The question of return on capital is harder to resolve for Exxon. The US energy group took most of its funding for the project from windfall profits made on high natural gas operations which the Dutch agreed to release for the large Third World development.

The oversupply of steam coal looks like continuing for some time. The Venezuelan Government is now considering bids for a 10m tonnes-a-year steam coal mine at Carabobo, just across the border from El Cerrejon.

Prices have continued to decline, with some South African coal being shipped at about \$18 a tonne from the terminal at Richards Bay. But there are indications that a recovery may be on the way.

In South Africa itself there is growing pressure on prices. The Rand is strengthening, rail freight rates for coal movements to Richards Bay are going up from April 1 and labour costs are set to rise. Earlier this month Mr Graham Thompson, managing director of Trans Natal, the country's second largest coal producer, said at least one company was exporting at a loss.

In Australia, two collieries have closed this year because of low prices. Accountants Coopers and Lybrand have recently reported that the New South Wales coal industry made a combined net loss of A\$69m (US\$47) last year, with the debt-to-equity ratio rising 50 per cent to 0.94.

Canada's largest coal mine, Quintette in British Columbia, is also in financial difficulties. The operators are trying to re-finance the scheme.

Jopling calls for 'head on' attack on farm surpluses

BY PETER MONTAGNON, WORLD TRADE EDITOR

A FURTHER call for concerted international action to unwind price support mechanisms in agriculture came yesterday from Mr Michael Jopling, UK Agriculture Minister.

Unless the world was prepared to confront such action "head-on" there was a risk that the new breed of multilateral trade negotiations would drift into a third best solution for agriculture based on cartelisation and market sharing, he said in a speech prepared for delivery to the Community Club in Washington.



Mr Michael Jopling: tribute to OECD research

Mr Jopling paid tribute to the controversial research work on agriculture undertaken by the Organisation for Economic Co-operation and Development. France and Japan have sought to block publication of this research because of the extent of agricultural support which it reveals.

"The OECD work shows that a multi-lateral approach to our problems through a genuine and sustained reduction in support levels would be in the world's economic interests," he said.

"The approach which the OECD has developed provides a valuable framework of thought which seems highly relevant to the issues which the GATT negotiations will have to tackle."

Some participants in the Gatt round favoured a traditional negotiation based on trading rules and disciplines, he said, but this had not been a successful approach in the past.

"It did not succeed precisely because of the whole panoply of policies which individual countries use to support their farmers."

"The OECD work shows that a multi-lateral approach to our problems through a genuine and sustained reduction in support levels would be in the world's economic interests," he said.

"The approach which the OECD has developed provides a valuable framework of thought which seems highly relevant to the issues which the GATT negotiations will have to tackle."

Mr Jopling acknowledged that his radical approach to the farm problem had made him unpopular with UK farmers, but he had to accept the major change in the economic climate in which agriculture had to operate.

The US spent \$26bn in 1986 on agricultural support, the EEC \$20bn and Japan \$11bn, he said, and these figures take no account of the substantial transfers to farmers through food prices.

"There is a growing consensus about the need for urgent action. Farmers themselves have come to realise that increasing production, and the costs that this entails, cannot go on."

The EEC has taken some significant measures to reduce agricultural support. It was entitled to operate a common farm policy. "The mistake has been, not in the system itself, but in the level at which agriculture has been supported."

Separately, Mr Jopling reiterated Britain's fierce opposition to the proposed EEC levy on fats and oils which he said "did not sit well" with the opening of the Gatt round.

The OECD work shows that a multi-lateral approach to our problems through a genuine and sustained reduction in support levels would be in the world's economic interests," he said.

"The approach which the OECD has developed provides a valuable framework of thought which seems highly relevant to the issues which the GATT negotiations will have to tackle."

Tropical timber code urged

By David Blackwell

EUROPE, the largest importer of tropical timber from Japan, should adopt a code of conduct and licensing system to ensure that all future imports come from ecologically sound, sustainable management concessions. Friends of the Earth International urges in its latest study.

The pressure group's report, drawn up in conjunction with the World Wildlife Fund, also wants to see a special tropical forest fund set up to enable widespread regeneration of forest areas damaged by logging. For every 10 trees cut down, only one is replanted, and "European aid policies do little to help redress this imbalance," it says.

Friends of the Earth says the report has tried to be positive in spite of its familiar catalogue of woes—5m hectares of tropical forest lost annually because of commercial logging, and the Philippines, the Ivory Coast and Gabon listed as "critical" by the World Bank.

The group does not want to have the trade, but to guide it towards proper management of a renewable resource, with resulting benefits for all. More than 90 per cent of the world's tropical timber forest is outside conservation areas, and the trade brings jobs for thousands and valuable export earnings for the countries involved.

Huge areas could be saved if they were found to have an economic use. Working through the trade—little tried until now—could be one of the most effective ways of preserving the forests, FOE argues.

A Hard Wood Story—Europe's involvement in the Tropical Timber Trade, Francis and Taylor, 357 City Road, London EC1.

Tasmanian copper mine reprieved

REINSON GOLDFIELDS Consolidated's Mount Lyell copper mine in Tasmania will stay open for an extra five years following a new deal package from the state government, reports Reuters from Sydney.

The mine had been scheduled to close in 1989 but will now stay open until deeper levels are played out, probably in 1994.

The Australian dollar's fall since 1985 has improved the local dollar copper price, making the company profitable and justifying the mining of deeper reserves at a copper grade of about 1.95 per cent against about 1.60 per cent now, Reinson said.

LONDON MARKETS

ALUMINIUM PRICES fell

heavily at the London Metal Exchange again yesterday, taking prices to five-week lows. The cash quotation added 22s to Monday's 51s fall to close at 52s4 a tonne, while its premium over the three months position narrowed by 4s.25 to 52s.25 a tonne. The premium, or "backwardation," as it is known, reached 24s.50 a tonne at the end of last week as covering by granulars of options earned a squeeze on supplies available for nearby delivery. Dealers said yesterday's fall was sparked off by a wave of selling by speculators. "They added that it had been heavily Allied some gaps in chart patterns left by the recent price rise. The LME copper market was also weak under pressure early on from sterling's pre-bidger's weakness against the dollar. The cash quotation closed 510 lower at 590s.50 a tonne after the three months position had breached a chart point at 5900 a tonne. Traders said the market was very quiet, however, as operators assessed probable budget impact on currencies. LME prices supplied by Amalgamated Metal Trading.

ALUMINIUM

Grade	Unofficial + or -	High/Low
Cash	52s.4	52s.4
3 months	52s.25	52s.25

COPPER

Grade	Unofficial + or -	High/Low
Cash	590s.50	590s.50
3 months	590s.50	590s.50

LEAD

Grade	Unofficial + or -	High/Low
Cash	50s.5	50s.5
3 months	50s.5	50s.5

NICKEL

Grade	Unofficial + or -	High/Low
Cash	52s.4	52s.4
3 months	52s.25	52s.25

TIN

Grade	Unofficial + or -	High/Low
Cash	52s.4	52s.4
3 months	52s.25	52s.25

ZINC

Grade	Unofficial + or -	High/Low
Cash	52s.4	52s.4
3 months	52s.25	52s.25

GOLD

Grade	Unofficial + or -	High/Low
Cash	52s.4	52s.4
3 months	52s.25	52s.25

SILVER

Grade	Unofficial + or -	High/Low
Cash	52s.4	52s.4
3 months	52s.25	52s.25

GOLD AND PLATINUM COINS

Grade	Unofficial + or -	High/Low
Cash	52s.4	52s.4
3 months	52s.25	52s.25

SUGAR

Grade	Unofficial + or -	High/Low
Cash	52s.4	52s.4
3 months	52s.25	52s.25

SOYABEAN MEAL

Grade	Unofficial + or -	High/Low
Cash	52s.4	52s.4
3 months	52s.25	52s.25

RUBBER

Grade	Unofficial + or -	High/Low
Cash	52s.4	52s.4
3 months	52s.25	52s.25

INDICES

REUTERS

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

DOW JONES

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

MAIN PRICE CHANGES

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

METALS

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

OILS

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

COFFEES

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

COCOA

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

COTTON

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

CRUDE OIL (LIGHT)

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

POTATOES

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

SUGAR

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

GRAINS

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

WHEAT

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

SOYABEAN MEAL

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

RUBBER

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

US MARKETS

STEADINESS in world oil

prices and short-covering the April contract rallied crude oil futures strongly, reports Drexel Burnham Lambert. Early fund buying coupled with local commission house and trade buying pushed prices towards overhead resistance commencing at \$18.60, basis May. Trade selling was noted at the high. Short-covering and early light trade buying steadied oil futures in the face of profit-taking by both the trade and locals as the market reacted both to a weaker dollar and the rise in oil prices. Silver futures opened in line with expectations but fell on a small selling in light volume before rallying to the lows to trade in a narrow range for the rest of the day. Platinum futures rallied on good trade buying in the face of local and commission house selling. Copper, after opening lower, ended around price support to hold steady for the rest of the day. Good trade buying at lower levels helped sugar futures recover following earlier weakness on concern about Brazilian harvest. Coffee futures remained under light pressure throughout the day reflecting reports of offering below the market of Colombian and Mexican coffee. Cocoa futures continued to steady in light volume as the market continued to exhibit optimism over the prospects for a satisfactory harvest, although some current ICCO talks, as well as concern over the forthcoming temperate crop in Brazil, although professional buying in maize futures was reduced as a result of a tender by Taiwan.

NEW YORK

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

COCOA

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

COTTON

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

CRUDE OIL (LIGHT)

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

POTATOES

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

SUGAR

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

GRAINS

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

WHEAT

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

SOYABEAN MEAL

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

RUBBER

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

GOLD 100 TRY OZ. 6/TRY OZ.

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

HEATING OIL

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

PLATINUM 100 TRY OZ.

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

SILVER

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

LIVE CATTLE 40,000 LB. CENTS/LB.

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

LIVE HOGS 30,000 LB. CENTS/LB.

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

PORK BELTIES 30,000 LB. CENTS/LB.

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

SOYABEAN MEAL 100 TONS, CENTS/TON

Index	Value
Mar. 18 Mar. 17	100.00
Mar. 18 Mar. 17	100.00

SOYABEAN MEAL 100 TONS, CENTS/TON

FOREIGN EXCHANGES

Further rise for sterling

STERLING CONTINUED to improve in currency markets yesterday as the market showed its approval of measures announced in yesterday's UK budget. Its exchange rate index finished at 72.1 up from an opening level of 71.9 and a sharp rise from Monday night's close of 71.4. The firmer opening was the result of heavy overnight demand in the Far East as foreign investors acted on the opinion that sterling had further to rise.

Consequently early trading in London was a little restrained as sterling approached the level which previously had prompted intervention by the Bank of England. However the pound moved ahead once more during the afternoon and broke through the \$1.80 level. But resistance hardened around this point with dealers expecting an imminent cut in UK clearing bank base rates to take some of the steam out of sterling's upward trend.

Other factors providing underlying support included higher North Sea oil prices and another opinion poll which showed the Conservative Party with a clear lead over other parties.

The pound closed at \$1.8000 up from \$1.7940 but eased back to New York after the close in London. Elsewhere it rose to DM 1.8240 from DM 1.8180 and to SF 1.5890 from SF 1.5830. Against the Swiss franc it was firmer at SF 2.46 from SF 2.4500 and SF 2.8500 compared with SF 2.8400.

Mar. 17	Latest	Previous
Spot	1.7970-1.7980	1.7940-1.7950
1 month	1.8240-1.8250	1.8180-1.8190
3 months	1.8240-1.8250	1.8180-1.8190
6 months	1.8240-1.8250	1.8180-1.8190
12 months	1.8240-1.8250	1.8180-1.8190

Forward premiums and discounts apply to the U.S. dollar.

Mar. 17	Latest	Previous
3.30 am	71.9	71.6
9.00 am	71.9	71.6
11.00 am	71.9	71.6
1.00 pm	71.9	71.6
2.00 pm	71.9	71.6
3.00 pm	71.9	71.6
4.00 pm	72.1	71.4

Changes are for £100, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

Mar. 17	Latest	Previous
US dollar	1.7970-1.7980	1.7940-1.7950
Swiss franc	2.4600-2.4610	2.4500-2.4510
DM	1.8240-1.8250	1.8180-1.8190
Yen	160.00-160.10	159.00-159.10
Italian Lira	1,936.00-1,937.00	1,926.00-1,927.00

*CISFR rate for Mar. 14: 1.64515

CURRENCY MOVEMENTS

March 17	Bank of England Index	Change
US dollar	72.1	+0.2
US dollar	72.1	+0.2
US dollar	72.1	+0.2
US dollar	72.1	+0.2
US dollar	72.1	+0.2

Morgan Guaranty changes: average 1987-1990, Bank of England index (base average 1975-1980).

OTHER CURRENCIES

Mar. 17	£	\$
Argentina	2,480-2,490	1,330-1,340
Australia	2,320-2,330	1,450-1,460
Brazil	2,320-2,330	1,450-1,460
Canada	1,170-1,180	4,490-4,500
France	212.00-213.00	133.00-134.00
Germany	2,320-2,330	1,450-1,460
Hong Kong	110.00-111.00	72.00-73.00
India	134.75-135.75	89.00-90.00
Italy	1,936.00-1,937.00	1,193.00-1,194.00
Japan	160.00-160.10	100.00-100.10
South Korea	407.00-408.00	252.00-253.00
Spain	166.00-167.00	100.00-100.10
Sweden	1.00-1.01	6.00-6.01
Switzerland	2.4600-2.4610	1.4500-1.4510
Taiwan	34.75-34.85	21.75-21.85
Thailand	50.75-50.85	31.75-31.85

*Selling rate.

MONEY MARKETS

No base rate hint

SENTIMENT ON the London money market received a boost ahead of yesterday's Budget as the news of a £200m public sector borrowing requirement, and a total PSBR for the first 11 months of the financial year of only £100m.

This, coupled with the Chancellor's target of a PSBR of only £40m in the next financial year, increased hopes of a cut in bank base rates of 1 per cent. Dealers were divided on whether this would be achieved in one move however, and received no hint from the Bank of England's market operations yesterday.

Three-month interbank bill at 9 1/2-9 3/4 per cent from 9 1/4-9 1/2 per cent.

UK clearing bank base leading rate 10 1/4 per cent since March 10.

Discount houses remained reluctant to sell bills to the authorities at present official intervention rates, in expectation of an early cut, but much of yesterday's £200m shortage was not with the houses. This was because maturing bills are not being renewed at present, in expectation of lower interest rates, with borrowers preferring to use overdraft facilities.

After the houses squared their books the interbank bid rates for overnight money up to 35 per cent.

The dollar recovered from a weaker start on better than expected US housing starts in February. These showed a rise of 2.6 per cent.

The dollar closed at DM 1.8240 from DM 1.8180, having been as low as DM 1.8270. Against the yen it was higher at ¥160.10 from ¥159.10 and SF 2.46 from SF 2.4500. The franc was firmer at SF 2.46 from SF 2.4500. The franc was firmer at SF 2.46 from SF 2.4500.

D-MARK—Trading range against the dollar in 1986-87 is 2.4710-2.4770. February average 2.4710-2.4770. Exchange rate index closed at 103.2 from 103.4.

There was no intervention by the Bundesbank at yesterday's fixing in Frankfurt when the dollar was fixed at DM 1.8270 down from 1.8280. Trading was quiet in the absence of any fresh news and with dealers still wary about central bank intentions so the dollar was confined to a narrow range.

Today's second revision to US fourth quarter GNP also kept many people on the sidelines.

Attention elsewhere was focused on sterling with investors hoping for a further rise in sterling's value as a result of confidence in the UK budget. JAPANESE YEN—Trading range against the dollar in 1986-87 is 158.70 to 161.30. February average 158.70 to 161.30. Exchange rate index closed at 211.3 from 211.5 six months ago.

Trading was rather quiet in Tokyo yesterday. Once again the dollar was confined to a narrow range. However its failure to hold on to a firmer trend started last week, because of fears of central bank intervention, tended to push it weaker so that it finished against the yen at ¥160.10 from ¥159.10 in New York and ¥159.20 in Tokyo on Monday. There were no fresh economic data to influence the market. Sterling remained firm ahead of the UK budget in quiet trading.

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FINANCIAL FUTURES

PSBR raises rate hopes

INITIAL REACTION to the Budget was very good among traders on the London International Financial Futures Exchange yesterday. Dealers were pleased that strong emphasis had been placed on a low public sector borrowing requirement of £40m for the next financial year, leaving scope for cuts in UK bank base rates.

The mood was set in the morning when a net repayment of £200m was announced in the February PSBR, and a borrowing requirement of only £100m for the first 11 months of the present financial year. This increased expectations of a significant undershoot in the Treasury's forecast.

Dealers suggested the Chancellor had left room for further reductions in taxation from any improvement in Government revenues, noting that the Budget assumed a price of \$15 a barrel for North Sea oil, compared with present prices of around \$18.

The PSBR target of £40m was about £10m less than generally expected, and boosted hopes of an immediate 1 per cent cut in bank base rates, and possibly as much as 1 1/2 per cent. This contrasted with the more cautious attitude in the cash money market, where dealers were not entirely convinced the Bank of England would

sanction an early cut of more than 1/2 per cent.

Long term gilt futures for June delivery opened firm at 129.01, supported by the strength of sterling. This was near the day's low of 128.31, and after the encouraging PSBR news the contract moved up to close at 129.17, just below the day's peak of 129.18, and compared 129.25 at Monday's close.

Three-month sterling deposit futures were also supported by hopes of lower UK interest rates, and the strength of the pound, which briefly moved above \$1.80. June delivery opened at \$0.80, and finished slightly below the day's high, at \$0.85, compared with the previous settlement of \$0.75.

Interest will cease to accrue on the said Notes as from 7th May, 1987.

Notes and Coupons will become void unless presented for payment within a period of ten years and five years respectively from the Redemption Date.

Manufacturers Hanover Limited

Principal Paying Agent

18th March, 1987

Notice of Early Redemption to the Noteholders of

AUTOPISTAS DEL MARE NOSTRUM S.A.

Concesionaria del Estado ("the Issuer")

U.S.\$175,000,000

Guaranteed Floating Rate Notes due 1995

Notice is hereby given to the holders of the above Notes that, pursuant to the provisions of Condition 7 (ii) of the Notes, the Issuer intends to redeem all of the Notes then outstanding on 7th May, 1987 ("Redemption Date") at a redemption price equal to 100% of the principal amount thereof plus accrued interest of US\$307.95 for each US\$1,000 Note.

Payments will be made on or after 7th May, 1987 against presentation and surrender of Notes or coupons at any of the following offices: Manufacturers Hanover Limited, 7 Princes Street, London EC2P 2EN; Manufacturers Hanover Bank Luxembourg S.A., 39, Boulevard Prince Henri, Luxembourg; Manufacturers Hanover Trust Company, Stockenstrasse 33, 8007 Zurich; Union de Banques Suisses (Luxembourg) S.A., 36-38 Grand Rue, L-2011 Luxembourg.

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INDUSTRIALS—Continued

114	230	22	22	22	22	22	22	22	22
115	230	22	22	22	22	22	22	22	22
116	230	22	22	22	22	22	22	22	22
117	230	22	22	22	22	22	22	22	22
118	230	22	22	22	22	22	22	22	22
119	230	22	22	22	22	22	22	22	22
120	230	22	22	22	22	22	22	22	22
121	230	22	22	22	22	22	22	22	22
122	230	22	22	22	22	22	22	22	22
123	230	22	22	22	22	22	22	22	22
124	230	22	22	22	22	22	22	22	22
125	230	22	22	22	22	22	22	22	22
126	230	22	22	22	22	22	22	22	22
127	230	22	22	22	22	22	22	22	22
128	230	22	22	22	22	22	22	22	22
129	230	22	22	22	22	22	22	22	22
130	230	22	22	22	22	22	22	22	22
131	230	22	22	22	22	22	22	22	22
132	230	22	22	22	22	22	22	22	22
133	230	22	22	22	22	22	22	22	22
134	230	22	22	22	22	22	22	22	22
135	230	22	22	22	22	22	22	22	22
136	230	22	22	22	22	22	22	22	22
137	230	22	22	22	22	22	22	22	22
138	230	22	22	22	22	22	22	22	22
139	230	22	22	22	22	22	22	22	22
140	230	22	22	22	22	22	22	22	22
141	230	22	22	22	22	22	22	22	22
142	230	22	22	22	22	22	22	22	22
143	230	22	22	22	22	22	22	22	22
144	230	22	22	22	22	22	22	22	22
145	230	22	22	22	22	22	22	22	22
146	230	22	22	22	22	22	22	22	22
147	230	22	22	22	22	22	22	22	22
148	230	22	22	22	22	22	22	22	22
149	230	22	22	22	22	22	22	22	22
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153	230	22	22	22	22	22	22	22	22
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194	230	22	22	22	22	22	22	22	22
195	230	22	22	22	22	22	22	22	22
196	230	22	22	22	22	22	22	22	22
197	230	22	22	22	22	22	22	22	22
198	230	22	22	22	22	22	22	22	22
199	230	22	22	22	22	22	22	22	22
200	230	22	22	22	22	22	22	22	22

5	Overseer 12 th	150	25.2
85	4 PCT Grp 10 th	5197	60%

[illegible]

200	98	Scott Robertson	198		19.8
192	102	Scott Greenham 10p	192	+2	19.2
212	122	Scott Merikale Tpt	212		19.2

[illegible]

315	230	Tractor rose, cup	230	+1	
298	124	Transport Dev.	243	+1	
90	104	Transwood Sp	293		
155	119	Trumble Harris LI 90	154		RGR
90	57	Trifas	75	+1	0.

264	266	76	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	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231	231	London Int Cpn \$1	231	+1
233	193	London & Man	229	+5
267	243	London United 20p	500	+5
290	228	Marsh McLennan \$1	642	+2

1.4	12.6	84	53	219	289	1	8.0	2.8	4
				IN21 Coni SN20.50	76		10128	2.0	4

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MINES—Continued

Stock	Price
Western Pol Australia	187 +2
Westmnet 20c	345
W Emperor Mines	77 +10
W Endeavour 20c	52
W Enterprise Gold	98 +4
W Forsyth NL	150 +4
W Gem Exp & Minerals	77 +2
W M Kalgoorlie 20c	95 +20
W Great Victoria Gold	93 +1
W HMC Acra NL 20c	95
W Ironbark Investments 20c	200
W JH Minerals NL	50 +2
W Lindson Occas Exp	46
W Minnabie Gold 20c	46 -1
W Mason Mt Mang 20c	77
W Mistic 20c	78
W Nickel Mines NL	77 +2
W Nickel Mines NL 20c	77
W Oka Ora Gold 51	46 +1
W Okeana NL 25c	37 +2

My Metranar Mars 20c	66	-2
My M Hldys 50c	96	-2
My M Hldys Exp 25c	7	-2

14	Highland Ss	29	99	10	
15	St. Lawrence Ss	29	99	10	
16	St. Lawrence Ss	29	99	10	
17	St. Lawrence Ss	29	99	10	
18	St. Lawrence Ss	29	99	10	
19	St. Lawrence Ss	29	99	10	
20	St. Lawrence Ss	29	99	10	
21	St. Lawrence Ss	29	99	10	
22	St. Lawrence Ss	29	99	10	
23	St. Lawrence Ss	29	99	10	
24	St. Lawrence Ss	29	99	10	
25	St. Lawrence Ss	29	99	10	
26	St. Lawrence Ss	29	99	10	
27	St. Lawrence Ss	29	99	10	
28	St. Lawrence Ss	29	99	10	
29	St. Lawrence Ss	29	99	10	
30	St. Lawrence Ss	29	99	10	
31	St. Lawrence Ss	29	99	10	
32	St. Lawrence Ss	29	99	10	
33	St. Lawrence Ss	29	99	10	
34	St. Lawrence Ss	29	99	10	
35	St. Lawrence Ss	29	99	10	
36	St. Lawrence Ss	29	99	10	
37	St. Lawrence Ss	29	99	10	
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39	St. Lawrence Ss	29	99	10	
40	St. Lawrence Ss	29	99	10	
41	St. Lawrence Ss	29	99	10	
42	St. Lawrence Ss	29	99	10	
43	St. Lawrence Ss	29	99	10	
44	St. Lawrence Ss	29	99	10	
45	St. Lawrence Ss	29	99	10	
46	St. Lawrence Ss	29	99	10	
47	St. Lawrence Ss	29	99	10	
48	St. Lawrence Ss	29	99	10	
49	St. Lawrence Ss	29	99	10	
50	St. Lawrence Ss	29	99	10	
51	St. Lawrence Ss	29	99	10	
52	St. Lawrence Ss	29	99	10	
53	St. Lawrence Ss	29	99	10	
54	St. Lawrence Ss	29	99	10	
55	St. Lawrence Ss	29	99	10	
56	St. Lawrence Ss	29	99	10	
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17	Publishing House, Inc.	24	1
46	Thorne Holdings	53	
116	Unit Group	117	

[illegible]

cover based on previous year's earnings.

dividend cover in excess of 100 times. Y Dividends
is a Dividend and yield include a special payment
for payment. A Net dividend and yield. B Pro
dividend. C Cumulative. E Minimum under price. F
dividend or other official estimates for 1986-81
after pending script and/or rights issue. H Div
dividend or other official estimates for 1986. K Div
dividend or other official estimates for 1987-88
dividend, cover and p/b based on latest script
dividend or other official estimates for 1988
based on prospectus or other official estimates for
prospectus or other official estimates for 1988
dividend, cover and p/b based on prospectus
dividend. T Figures assumed. W Pro forma figures
provisions of ex dividend; ex script issue; ex
dividend distribution.

2) Pkg. 3p	86	21 Pkg.
3) (Lcs) 25p	900	+5	Carroll Ind
4) Stm. £1	85	Dublin Ga
			Hell (R. &

and 11.4% 1988	1977	Heaton H
9.4% 2009	1974	Irish Rep
		Unidac

TRADITIONAL

3-month call

Industrials	35	NEI	
Med-Long	26	Nat W	
Indstrad	16	P & O D	
AT	47	Pleasy	
OC Grp	42	Poly P	
SR	12	Racal E	
SR	19	RHM	
SR	30		

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STC
 Sears
 TI

Waters	30	T5B
Brit Aerospace	25	Tesco
Aririx, Telecom	23	Thorn
Curzon	23	Trust
Edwards	22	Turner
Charter Cons.	30	Unilever
Comm Union	30	Vickers
Courtauld	30	Wellco
NFC	20	
Gen Accident	50	Propri
		Brit L
Glaxo	110	Land S
Grand Met	40	MEPC
AUS 'A'	100	Peach
Guardian	85	
GKN	80	BOM
Hanson Tz	15	Brit P
Hanson Stid	60	Burns
ICI	52	Charn
Jaguar	52	Prem
Landers	25	Tric
Legal & Gen	25	
Leg Service	35	

Lucas Inds.....	53	Little
Marks & Spencer	18	Cons
Midland Bk	55	Lonk

Morgan Grenfell 25 Rio Tinto
A selection of Options traded
London Stock Exchange

Budget speech brings surge in Government bonds and new peak in equity market

هكذا من الأصل

CANADA

Sales	Stock	High	Low	Close	Chng	Sales	Stock	High	Low	Close	Chng
TORONTO											
Closing prices March 17											
2946	AMCA Int	\$11 1/2	11	11 1/2	+ 1/8	15929	CLB A S	\$20 1/2	20 1/2	20 1/2	0
2536	Aberford	\$8 5/8	5 1/2	5 1/2	- 1/8	1150	CLB B S	20 1/2	20 1/2	20 1/2	0
21930	Abitibi P	\$49 1/4	40	40 1/4	+ 1/4	1150	CLB C S	20 1/2	20 1/2	20 1/2	0
1716	Acadiana	\$17 1/2	17 1/2	17 1/2	0	1400	Canor	\$18 1/2	18 1/2	18 1/2	0
14000	Agrium E	\$32 1/2	31	31 1/2	+ 1/2	4400	Canor A	\$18 1/2	18 1/2	18 1/2	0
14728	Albina En	\$32 1/2	32 1/2	32 1/2	0	7600	Car A	\$11 1/2	11 1/2	11 1/2	0
1630	Albion N	\$12 1/2	12 1/2	12 1/2	0	1400	Car B	\$11 1/2	11 1/2	11 1/2	0
46190	Alcan	\$40 1/4	40 1/4	40 1/4	0	1400	Car C	\$11 1/2	11 1/2	11 1/2	0
27	Alco Cent	\$30 1/2	30 1/2	30 1/2	0	2630	Car D	\$11 1/2	11 1/2	11 1/2	0
2536	Algonic S	\$11 1/2	11 1/2	11 1/2	0	4000	Car E	\$11 1/2	11 1/2	11 1/2	0
50530	Ascomera	\$13 1/2	13 1/2	13 1/2	0	5400	Comp Int	\$5 1/2	5 1/2	5 1/2	0
1716	Atkins	\$17 1/2	17 1/2	17 1/2	0	5400	Comp Int	\$5 1/2	5 1/2	5 1/2	0
6912	BGR A	\$31 1/2	31 1/2	31 1/2	0	19189	Can Bth A	\$22 1/2	22 1/2	22 1/2	0
3215	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth B	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth C	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth D	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth E	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth F	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth G	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth H	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth I	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth J	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth K	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth L	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth M	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth N	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth O	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth P	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth Q	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth R	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth S	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth T	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth U	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth V	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth W	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth X	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth Y	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth Z	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AA	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AB	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AC	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AD	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AE	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AF	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AG	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AH	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AI	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AJ	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AK	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AL	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AM	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AN	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AO	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AP	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AQ	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AR	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AS	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AT	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AU	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AV	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AW	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AX	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth AY	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth AZ	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BA	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BB	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BC	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BD	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BE	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BF	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BG	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BH	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BI	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BJ	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BK	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BL	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BM	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BN	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BO	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BP	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BQ	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BR	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BS	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BT	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BU	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BV	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BW	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BX	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth BY	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth BZ	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth CA	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth CB	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth CC	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth CD	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth CE	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth CF	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth CG	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth CH	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth CI	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth CJ	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth CK	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth CL	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	5400	Can Bth CM	\$22 1/2	22 1/2	22 1/2	0
6912	BC Sugar	\$25 1/4	24 1/4	24 1/4	- 1/4	5400	Can Bth CN	\$22 1/2	22 1/2	22 1/2	0
569	BGR A	\$11 1/2	11 1/2	11 1/2	0	540					

Nasdaq national market, closing prices

Indicator Pre-close figures

NYSE Consolidated 1500 Actives		
Stocks Traded	3,590,000	Change on Day
Volume	1974	+ 1/2
Value	1,872,000	32 1/2 + 3/4
Avg Price	32 1/2	+ 1/4
Open	1,872,000	32 1/2 + 1/4
Close	1,872,000	32 1/2 + 1/4
Advances	853	Declines 428

TOKYO - Most Active Stocks		
Thursday, March 17, 1987		
Stocks Traded	3,590,000	Change on Day
Volume	1974	+ 1/2
Value	1,872,000	32 1/2 + 3/4
Avg Price	32 1/2	+ 1/4
Open	1,872,000	32 1/2 + 1/4
Close	1,872,000	32 1/2 + 1/4
Advances	853	Declines 428

• Saturday March 14: Japan Nikkei (c). TSE (c). Base value of all indices are 100 except for Toronto 33=100. JSE Gold: 227.7. JSE Industrials=354.3. Australia. All Ordinary and Metals=500; NYSE All Common=50; Standard and Poors=10; and Toronto Composite and Nikkei=1,000. Toronto includes based 1975 and Montreal Portfolio 4/1/83. Excluding bonds, 440 Industrials plus 40 Utilities, 40 Financials and 20 Transports. C Closed, U Unavailable.

LONDON - Most Active Stocks		
Monday, March 17, 1987		
Stocks Traded	3,590,000	Change on Day
Volume	1974	+ 1/2
Value	1,872,000	32 1/2 + 3/4
Avg Price	32 1/2	+ 1/4
Open	1,872,000	32 1/2 + 1/4
Close	1,872,000	32 1/2 + 1/4
Advances	853	Declines 428

Chief price changes		
(in pence unless otherwise indicated)		
LONDON		
RISES:		
Tr. 13Wpc '04-08.	£138 3/4	+ 2 1/2
Ex. 12pc '13-17.	£130 3/4	+ 2 1/2
Allied-Ly	389	+ 9
Beecham	557	+ 10
El Circ	758	+ 15
Bowater Inds.	445	+ 12
Brit Eve Post	197	+ 7
Brit Gas	84	+ 3 1/2
BP	825	+ 3 1/2
Carlsberg	103 1/2	+ 8
Cellulose Cap	242	+ 12
Crown Hse	242	+ 12
Delta	249	+ 13
Fisons	839	+ 23 1/2
Garn Booth	243	+ 21
Hillid Hldgs.	277	+ 8
FALLS:		
Lain Prop.	376	- 13
Land Sees	379	- 8

Gillette wins approval to buy Waterman stake

By David Housego in Paris

GILLETTE, the US razor and consumer goods group, has received French Government approval to go ahead with its purchase of a majority stake in Waterman, the family owned French quality pen manufacturer.

Gillette gained an option to purchase 180,000 Waterman shares at FFr 700(\$114) each in November in a move that will give it 51.2 per cent of the French group. Mrs Francine Gomez, president of the company, her mother and her aunt own 53 per cent of the shares.

The sale is intended both to avoid death duty problems and to thwart a potential bid to take over the company by Parker Pen, the US-based pen manufacturer.

Credit Commercial de France, the French bank, has undertaken to ensure that Waterman's share price - which stood at FFr 825 on Monday - does not fall below FFr 650 between March 18 and April 7.

French government permission is necessary on foreign investments which originate outside the EEC.

NORTH AMERICAN QUARTERLIES		
MOVA, AN ALBERTA CORP		
Energy		
Fourth quarter	1986	1985
Revenue	\$101.2	\$85.6
Net profit	\$19.2	\$15.8
Net per share	10.15	11.19
Year	2,850	2,325
Revenue	16.12	147.5
Net profit		

SMH to pay first dividend		
By Jeffrey Brown in London		
SMH, the Swiss watch group formed in 1983 by the merger of two troubled international companies, plans to pay its first dividend.		
The group is also to raise SFr 100m through a bond issue on the local capital market. The issue carries warrants to take up SMH participation certificates.		
a dividend of 5 per cent. Net profit in 1985 totalled SFr 60.4m.		
The company said worldwide sales last year were 1.2 per cent higher at SFr 1.6bn (\$1.1bn). I pointed out that sales growth would have been closer to 6 per cent but for currency swings.		

By David Housego in Paris

SMH to pay first dividend

By Jeffrey Brown in London

US DOLLAR ↑↑↑↑

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USE CO

USE CO

USE CO

AMEX COMPOSITE CLOSING PRICES

Stock	Div	P/E	Siz E 100s	High	Low	Class	Change	Stock	Div	P/E	Siz E 100s	High	Low	Class	Change	Stock	Div	P/E	Siz E 100s	High	Low	Class	Change	Stock	Div	P/E	Siz E 100s	High	Low	Class	Change
ACR-Rd		32	14Q	16Q	14Q	- 16		ABC		18	14D	16D	14D	- 16		ABC		18	14D	16D	14D	- 16		ABC		18	14D	16D	14D	- 16	

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Nasdaq national market, closing prices

Continued on Page 47



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FINANCIAL TIMES

WORLD STOCK MARKETS

AMERICA

Oils, high-techs underpin fresh record

WALL STREET

HEAVY BUYING of oil and technology stocks helped push Wall Street share prices to record levels yesterday as many investors, setting aside their caution about Friday's Triple Witching Hour, were tempted back into the markets.

The more positive mood spilled over a little into credit markets as bond prices recovered quickly from a small dip triggered by news of far stronger than expected housing starts.

The Dow Jones industrial average rose steadily through the day to close up 38.34 points at a record 2,284.80, beating the previous record of 2,280.23 set on March 6.

The slow morning reflected reluctance of many investors to enter the markets on the eve of turbulent trading surrounding the simultaneous expiration on Friday of futures and options on stock indices and options on individual shares. Some of the caution gave way to buying, however, during the afternoon.

Broad market indices followed the Dow Industrials higher. The Standard and Poor's 500 and the New York American stock exchange composite indices set records, adding 4.24 to 282.47, 2.07 to 168.41 and 4.06 to 335.24 respectively.

NYSE volume picked up to 177.3m shares from the lethargic level of 154.9m on Monday with advancing issues outpacing declining by a two-to-one margin.

Oil stocks were strong on rising oil prices, signs that Opec was achieving some discipline over members' output and the release of a Reagan Administration report proposing ways to boost domestic oil production. Exxon added 2 1/4 to \$54 1/4, Chevron rose 1 1/4 to \$55 1/4, Amoco gained 3/4 to \$59 1/4, Texaco put on 5/8 to \$35 and Atlantic Richfield advanced 3/4 to \$78 1/4. Ashland Oil fell 1/4 to \$84 on expectations it would report a second quarter loss.

Schumacher rose 3/4 to \$39 1/4 reflecting a favourable impact of rising oil prices on its off-road service business and the end of its pact to sell on 60 per cent stake in its Fairchild Semiconductor unit to Fujitsu, the Japanese electronics and computer group. The plans were dropped under pressure from the US Government.

Other semiconductor stocks were buoyed by the action to curb Fujitsu's incursion into the US market. Motorola added 1 1/4 to \$52 1/4, National Semiconductor advanced 1 1/4 to \$15 1/4, Intel gained 3/4 to \$38 and Advanced Micro Devices put on 5/8 to \$21 1/4.

Computer stocks picked up some of their recent losses with IBM gaining 3/4 to \$147, Digital Equipment advancing 5/8 to \$106 1/4, Unisys rising 3/4 to \$103 1/4 and Cray Research gaining 3/4 to \$124.

Tell Broadcasting advanced 3/4 to \$158. An investment group raised its management buy out offer to \$150 a share from \$145.

Turner Broadcasting fell 5/8 to \$21 1/4 on the American Stock Exchange. Time Inc., unchanged at \$88 1/4, said it was negotiating to join the investor group which was planning to pay \$550m for a 35 per cent stake in the cable television company.

Ameri Trust jumped 3/4 to \$31 in the over-the-counter market. The Ohio bank group said investors led by Mr Alfred Lerner, chairman of Equitable Bancorp, up 5/8 to \$30, had taken a 9.6 per cent stake in it.

K mart fell 5/8 to \$61 1/4. It said it ended talks to sell its Kresge chain of stores to Woolworth, which declined \$4 to \$48 1/4.

News that the flotation price of Consolidated Rail was being raised to between \$26 and \$29 a share from \$22 to \$26 helped buoy up other railroad stocks. Union Pacific jumped 3/4 to \$76 1/4, CSX added 1/2 to \$34, Burlington Northern gained 3/4 to \$69 1/4, Norfolk Southern advanced 5/8 to \$97 and Santa Fe South Pacific was ahead 5/8 to \$34 1/4.

Credit markets reacted with only a brief dip in prices to the news of a 2.6 per cent rise in housing starts in February. A fall by a similar margin had been expected.

The price of the 7.50 per cent benchmark Treasury long bond recovered from its early session decline to show a gain for the day of 1/4 of a point to 100 1/4 at which it yielded 7.49 per cent.

The continuing strength of housing starts, particularly of single family homes, appears to be underpinned by low interest rates, ready availability of mortgages and favourable treatment of houses under tax reforms. Should the trend continue, the domestic construction sector could prove to be a significant factor in US economic growth this year.

CANADA

AFTER A SLOW start, share prices climbed strongly into record territory on firmer oil prices.

Energy and metal mining stocks led the market's advance, with Imperial Oil 'A' adding C\$2.00 to C\$60.00, Shell Canada C\$14 to C\$49 1/4 and Gulf Canada C\$4 to C\$27 1/4.

In metals and mines, Inco was up C\$4 to C\$20 1/4 and Falconbridge put on C\$1 to C\$20 1/4.

Against the trend, precious metals eased, with Lac Minerals down C\$2 to C\$38 1/4 and Dome Mines off C\$3 to C\$15 1/4.

Among leading actives, Nucor Oil and Gas was steady at C\$11.00 after arranging a C\$50m financing.

Montreal rose with Toronto, with only banks showing an easier trend.

UK FINANCIAL markets rose strongly in a swift and extremely positive reaction to yesterday's budget which was seen as paving the way for an immediate cut in base lending rates.

Interest rates on the domestic money market shifted sharply lower as Mr Nigel Lawson, Chancellor, was speaking in response to the decision to slash his projection for public borrowing by £3bn to only £4bn (\$8.4bn). Rates now discount a full percentage point cut in base rates. Some reduction in rates is widely expected today.

The cut in borrowing provided markets with the biggest surprise of the budget. The Chancellor, had been widely expected to concentrate the funds he had available on cutting taxes in what is likely to be an election year. In the event, the focus on cutting public borrowing

was seen as admirably prudent and confidence-building.

At the same time, the Chancellor delivered a 2 percentage point cut in the basic rate of income tax which had been widely anticipated and provided further sweeteners for public consumption in his decision not to raise excise duties on cigarettes and alcohol.

His forecasts for the economy and his budget arithmetic were seen as credible, which could prove crucial for market confidence.

Economists and traders said the budget had left the Government's options on election timing wide open and enhanced its chances of winning. The tax cuts would be felt in people's pockets in time for a June poll but the Chancellor's pro-

row over currency fraud, gave up DM 1 to DM 333.

Lufthansa fell DM 7 to DM 178 as the airline revealed a new US service and said that it believed its fare policy was within EEC rules.

Bond prices were narrowly mixed with movements of up to 10 basis points. The Bundesbank bought DM 114.50m of paper after selling DM 57.8m on Monday.

Paris turned lower on some position-squaring ahead of the new monthly account and a small rise in domestic short-term interest rates.

The improved performance of two key economic indicators during February failed to lend any support.

Peugeot led a mixed motor sector with its FF 14 rise to FF 1,443, while Carrefour put on the best show among retailers with its FF 70 advance to FF 3,880.

Amsterdam remained tied to the fate of the dollar and its impact on international. Many foreign investors stayed out of the market yesterday and concentrated their attention on funds and on London.

Gains were few among international funds. Also firm 80 cents to FF 142.50 and Philips closed 10 cents up at FF 50.40. KLM dropped 50 cents to FF 42.80 and Royal Dutch shed FF 3.20 to FF 235.80.

Publisher Elsevier edged 50 cents up to FF 251 ahead of results.

Brussels moved off its high despite news of government spending cuts viewed by many operators as a sign of determination to keep the budget under control.

Zurich was mixed as foreign investors held to the sidelines. Ciba-Geigy responded to reports that it was actively researching an Aids treatment. It added Sfr 110 to Sfr 3,380.

Stockholm was higher on strong demand for Ericsson, up Skr 4 to Skr 257 while Madrid retreated on the news that FECSA, the utility, had formally announced a suspension of its debt repayment.

BY JANET BUSH AND TERRY BYLAND IN LONDON

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VW affair casts cloud over Veba sale

By David Marsh and Haig Simonian

THE TIMING of West Germany's biggest ever share sale has been thrown into doubt in the wake of the currency fraud scandal at Volkswagen.

The West German Government was due to sell its 25.6 per cent stake in Veba, the diversified energy conglomerate, later this month. The operation was expected, at the beginning of the year, to raise nearly DM 32m (\$1.65bn).

But since VW announced last Tuesday that it was making a provision for a loss of DM 48m in its 1986 accounts because of a currency fraud, West Germany's Commerzbank share index has fallen from 1,755.5 to 1,622.5 yesterday. The Veba share price, which stood at DM 346 at its peak last year, has dropped another DM 4 to close at DM 280.58 yesterday. This would bring the proceeds from the share sale down to a little over DM 2.5bn.

Mr Rudolf von Bennigsen-Foerster, Veba's chairman, used clear yesterday that the Volkswagen scandal was affecting the share sale.

He said he could give no date for the flotation because the timing was a matter for the Government and the banking consortium, led by Deutsche Bank, which is managing the issue.

Veba wanted to get the privatisation "behind us", although Mr von Bennigsen did not rule out a delay beyond the end of the month and suggested that those wanting more details would have to "ask the finance ministry".

Clearly disgruntled at the cloud over the flotation, Mr von Bennigsen said he was against any postponement since "a few D-Marks up or down in the (Veba) price" would make no difference to the operation.

The Government has budgeted that it will receive DM 3.2bn this year from selling some, or all, of its stakes in Veba, VW, DSB Bank and the Deutsche Post-Briefanstalt.

Exchanges to use Morgan Stanley index

By David Owen in Chicago

MORGAN STANLEY, the Wall Street securities house, has announced agreements allowing two US futures and options exchanges to use its Europe, Australia and Far East stock index (EAFE) as the basis for trading futures contracts and listed options.

The Chicago Mercantile Exchange (CME), the world's second largest futures exchange, will be permitted to market and trade futures and options on futures based on the index, while the Chicago Board Options Exchange (CBOE), the world's largest market for listed options, will be able to offer EAFE-based, cash-settled options.

The EAFE index is a diversified portfolio of 900 stocks representing the stock markets of 16 different countries. Combined market capitalisation of the companies constituting the index represents over 60 per cent of the aggregate market value of the stock exchanges in these countries.

EAFE-based futures and options "should greatly benefit portfolio managers by allowing them to trade the equivalent of a basket of international indices in a single futures contract," said Mr William Brodsky, president of the CME.

Potential users will probably have to wait several months for EAFE-based derivative products to start trading, while the exchanges wait for regulatory approval.

EUROPE

Rate cuts give Milan a boost

ITALY resisted the softer trend on the European bourses yesterday by defying further encouragement from the latest cut in bank prime rates.

Milan was actively higher throughout the day and sharp gains were also registered in after-bourse trading.

Renewed foreign demand was noted although local support centred on covering operations and stemmed from an improvement in the political climate.

Fiat was marked sharply higher on the prospects of a bank-sponsored stock/bond swap. The diversified transport group rose a further 1.210 to 1.12.650.

Eni rose in focus advanced L410 to L4,500 in reaction to its improved profit and dividend figures.

Financials were busy and mixed: Ras added L880 to L26,580, while Mediobanca gave up some of its Monday gain triggered by the appointment of a new chairman. It lost L2,800 to close at L255,000.

Among blue chip industrials Montedison, reversing a series of falls, gained L50 to L2,670 and Olivetti closed L180 ahead at L13,250.

Sentiment was aided by wholesale price index figures which showed a rise of 1.1 per cent in January from December but were nevertheless 1.7 per cent down from the year ago figures.

Frankfurt was unsettled by the easier dollar and speculation, triggered by a German news magazine report, that many chemical and insurance companies will be subjected to heavy litigation over allegedly AIDS-infected blood plasma.

Bayer suffered the most from the reports with a DM 13 decline to DM 292, while Hoechst dropped DM 6.50 to DM 253 after a gas leak at its Frankfurt plant early yesterday. Insurer Allianz dropped DM 56 to DM 1,597.

Among weaker car makers, Daimler retreated DM 18 to DM 913 and VW, entangled in a growing

row over currency fraud, gave up DM 1 to DM 333.

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Publisher Elsevier edged 50 cents up to FF 251 ahead of results.

Brussels moved off its high despite news of government spending cuts viewed by many operators as a sign of determination to keep the budget under control.

Zurich was mixed as foreign investors held to the sidelines. Ciba-Geigy responded to reports that it was actively researching an Aids treatment. It added Sfr 110 to Sfr 3,380.

Stockholm was higher on strong demand for Ericsson, up Skr 4 to Skr 257 while Madrid retreated on the news that FECSA, the utility, had formally announced a suspension of its debt repayment.

ASIA

Lure of quick profit lifts Nikkei to fresh high

TOKYO

STRONG BUYING interest returned to Tokyo yesterday, focusing on major steelmakers and other large-capital stocks and driving share prices to a new high, writes Shigeo Nishiwaki of Jiji Press.

The Nikkei average gained 99.36 from Monday to 21,514.73. Volume swelled to 1,945m shares from 1,145m. Advances outnumbered declines by 451 to 433, with 137 issues unchanged.

Dealers concentrated on large-capital stocks, shipbuilders and chemicals to earn quick profits. Institutional investors, businesses and individuals jumped on the bandwagon.

Leading the upswing was Nippon Steel, which topped the active list with 419.12m shares changing hands and rose ¥17 to a record ¥322, eclipsing the previous peak of ¥310 set on March 11.

Kawasaki Steel gained ¥10 to ¥255, Sumitomo Metal Industries ¥12 to ¥255, Ishikawajima-Harima Heavy Industries ¥20 to ¥259 and Nippon Kokan ¥23 to ¥260.

Kawasaki was the second-busiest issue with 218.54m shares traded, Sumitomo third with 117.21m, Ishikawajima-Harima fourth with 78.65m and Nippon Kokan sixth with 63.49m.

Volume of the 10 most active stocks accounted for 58.3 per cent of the total.

Some budget-influenced stocks performed strongly, supported by the Government's plan for carrying out public works aimed at buying up the Japanese economy. Toei Corp rose ¥40 to ¥1,070 and Obayashi Corp ¥40 to ¥1,080.

All Nippon Airways (ANA) climbed ¥90 to ¥2,130, helped by the deregulation of the aviation business.

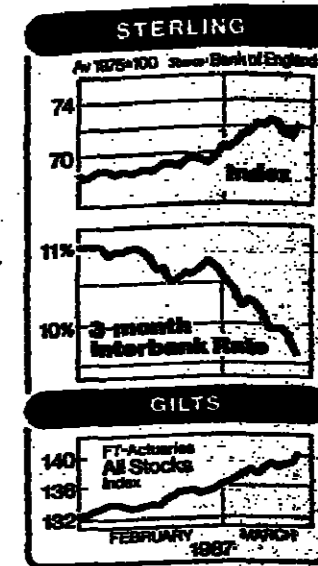
The Government has budgeted that it will receive DM 3.2bn this year from selling some, or all, of its stakes in Veba, VW, DSB Bank and the Deutsche Post-Briefanstalt.

The equity market's more considered response will come today and is likely to hinge largely on whether there is an early cut in base rates.

Most leading stocks ended strongly, with oil and consumer industry issues responding particularly positively. Brewers were helped by the decision to leave excise duties alone.

The FT-SE 100 index, 16 points up when the Chancellor started his speech, surged ahead to register a 28.2 gain at its best level. Profit-taking then reduced this gain to 14.5 for a finish of 2,008.3.

Plans to extend the trading session by keeping the stock exchange's Searg screens active until 7.00pm foundered when neither market makers nor customers showed any inclination to continue trading after normal hours. Searg officials were forced to announce that trading would end at 6.30pm.



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HONG KONG

SELLING persisted steadily for a fourth session in Hong Kong, taking the Hang Seng index down a further 48.29 to 2,822.24. The index has fallen nearly 100 points in the past week and by more than 30 per cent since it peaked at 3,000.55 on March 2.

The Hong Kong index was down 23 at 1,685.31.

Hongkong Bank remained under pressure from its HK\$3.25 rights issue, which US fund managers are reported to be reluctant to take up. The bank lost 15 cents to HK\$22.5.

Utilities and properties were again weaker, with Cheung Kong down HK\$1.00 to HK\$41.25, Hongkong Land easing 19 cents to HK\$7.35 and China Light and Power off 40 cents at HK\$20.80.

SINGAPORE

THE DOWNTURN continued into a fifth consecutive trading day in Singapore as profit-taking in the wake of the recent record run took the Straits Times industrial index 22.30 lower to 1,011.07.

Volume remained moderate as many investors stayed out of a market widely seen as overbought.

SOUTH AFRICA

THE STRENGTH of the financial rand weighed down on Johannesburg, offsetting the firmer bullish price to push gold and mining shares generally lower.

Van Rooy fell R7 to R338 and Driefontein 70 cents to R86.50, while easier mining financials included Gencor, down R1.10 to R57.90, and Anglo American, off 15 cents to R87.

Samancor, a ferroalloy and base metal issuer, moved up 5 cents to R7.95, apparently on buying by a large foreign investor.

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